

A.I.D. EVALUATION SUMMARY - PART I

PD-ABP-126

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

IDENTIFICATION DATA

A. Reporting A.I.D. Unit: Strategic Objective 1/Economic Development Team Mission or AID/W Office USAID/DR (ES# 517-0254)		B. Was Evaluation Scheduled in Current FY annual Evaluation Plan? Yes <input checked="" type="checkbox"/> Slipped <input type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission date: FY 97 1st. Q	C. Evaluation Timing Interim <input type="checkbox"/> Final <input checked="" type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>
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D. Activity or Activities Evaluated (list the following for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)

Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
517-0254	Micro & Small Business Development Project	1990	6/97	\$7,250	\$7,250

ACTIONS

E. Action Decisions Approved By Mission or AID.W Office Director	Name of Officer Responsible for Action	Date Action to be Completed
<p>Action(s) Required</p> <p>Since the project will end by June 30, 1997, the actions required are very limited. They are just two:</p> <p>1) Project Audit</p> <p>2) Project PACR</p>	<p>Grantee/ FondoMicro</p> <p>L.González/ B.Rudert</p>	<p>July 1997</p> <p>Aug. 1997</p>

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: (Month) (Day) (Year)
April 1997

G. Approvals of Evaluation Summary And Action Decisions:

Name (Typed)	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Signature	Brian Rudert		Luis C. González/B.	Marilyn Zak
Date	6/2/97		6/2/97	6/2/97

ABSTRACT

The Micro and Small Business Development Project (#517-0254) began in June 1990 with the goal of increasing productivity and employment generation in the informal small and micro enterprise (ISME) sector. Its purpose was to develop FondoMicro into a viable, financially self-sustaining organization that could efficiently provide the financing and technical assistance needed by NGOs operating credit programs that directly serve the sector. The project was innovative in attempting to create a second tier source of financing for these NGOs. The project was authorized for LOP funding of \$7,250,000 over seven years, and was implemented through a cooperative agreement with FondoMicro, a Dominican non-governmental organization created for this purpose. The evaluation found that the project failed to meet its objectives because: a) there were few viable NGOs in the Dominican Republic that qualified, even with intensive technical assistance, to manage the project's credit resources; b) the NGO legal structure makes these organizations dependent on donor capital, as they are unable to mobilize domestic savings, nor are they efficient channels for commercial bank loans to the sector; c) FondoMicro's operating costs are excessive in relation to its limited loan portfolio; d) the lack of regulatory enforcement of prudential norms creates potential risk in using NGOs as lending channels; and e) FondoMicro lacks an articulated vision and strategic plan of how its resources will continue to benefit the intended micro enterprise sector. As the project neared completion, FondoMicro (with USAID approval) sponsored the creation of a for-profit Small Business Bank, which it believes will be a more effective structure to meet the credit and savings needs of the ISME sector. Specific mechanisms are required, however, to assure that the Bank does in fact serve the informal micro enterprise sector, rather than skewing its attention toward easier to reach small and medium businesses in the formal sector.

C O S T S

I. Evaluation Costs

1. Evaluation Team		Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
Name	Affiliation			
Stephen Wingert	Wingerts Consulting	517-0254-0-00-7032-00	\$28,706	Project 517-0254
Cristobal F. Astacio	Wingerts Consulting			
2. Mission/Office Professional Staff Person-Days (Estimate) *		3. Borrower/Grantee Professional Staff Person-Days (Estimate)		

A.I.D. EVALUATION SUMMARY - PART II

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)		
Address the following Items:		
<ul style="list-style-type: none"> • Purpose of evaluation and methodology used • Purpose of Activity(ies) evaluated • Findings and conclusions (relate to question) 	<ul style="list-style-type: none"> • Principal Recommendations • Lessons learned 	
Mission or Office: USAID/DR	Date This Summary Prepared: 4/15/1997	Title And Date Of Full Evaluation Report: Micro & Small Business Devel. Project - Final Evaluation April 1997

Purpose of Evaluation and Methodology Used

The USAID Mission to the Dominican Republic contracted Wingerts Consulting to prepare a final evaluation of the Micro and Small Business Development Project in order to assist the Mission to assess the lessons learned from this seven year, innovative project, and to help FondoMicro address strategic issues concerning it's future activities. The evaluation team reviewed all pertinent project documents as well as financial information on the program and all participating institutions. They then visited all active and a sample of former FondoMicro clients, as well as 18 micro enterprises. They also met repeatedly with FondoMicro and USAID staff, and with representatives of other international donors and GODR agencies active in the sector.

Purpose of Activities Evaluated

The purpose of the Micro and Small Business Development Project was to develop FondoMicro as a viable, financially self-sustaining organization that can efficiently provide the financing and technical assistance needed by NGOs operating credit programs that directly serve the informal small and micro enterprise (ISME) sector. The project's goal was to increase productivity and employment generation in the ISME sector.

Findings and Conclusions

1. FondoMicro will fall well short of expectations for most end of project status indicators, and it appears that the existing achievements may not be sustainable. The end of status indicators were designed to measure the outreach of the program, and the program is not attaining the large, broad audience of small and micro businesses that was the target of the program. The failure to achieve the level of program outreach contemplated in the project is due primarily to the fact that the SME lending NGOs have proven less capable of performing this role on a sustainable basis than was assumed. FondoMicro indicated concern early in the project that the pool of potentially viable clients was lower than anticipated, but neither FondoMicro nor USAID dealt adequately with the implications of this concern at the time.
2. There is a large unmet demand for credit within the micro and small business sector, which exceeds the resources available to the organizations presently attempting to supply the demand. Donor assistance, which has been the chief source of funds for the sector (other than supplier credit), is unlikely to expand and is likely to contract.
3. The institutions serving this sector must evolve into organizations which can serve as effective links to the capital of net savers within the economy, such as savings and loan cooperatives or private banks. The fundamental issues that limit the growth and sustainability of FondoMicro and its clients are their high administrative costs in relation to the size of their portfolios, and their high cost of capital (except when donated). These issues derive from provisions in their legal structures that prohibit savings mobilization and full participation in financial intermediation.

S U M M A R Y (Continued)

4. It is more important to maintain FondoMicro's technical assistance function than it is to maintain its credit function, as it is not a cost effective provider of credit.
5. The project design underestimated the difficulty of developing NGOs with true potential to become long-term, fully sustainable organizations. FondoMicro could have increased its pool of potential clients to some degree by focusing closer attention on savings and loan cooperatives. However, it is unlikely that there are many other NGOs in the Dominican Republic qualified to become program participants, even with the same amount of intensive assistance FondoMicro provided to some of its current clients.
6. In general, the credit programs in the five NGOs with active lines of credit from FondoMicro appear to be well managed. However, loan supervision in some cases appears insufficient, particularly in light of rapidly expanding portfolios. The reserves for uncollectible loans appear inadequate in most of the five NGOs with active lines of credit from FondoMicro, and in combination are only about one third of the appropriate level.
7. The FondoMicro management systems appear modern and conscientiously implemented. They appear too staff intensive and costly for the level of program activity, however. FondoMicro either lacks a clear strategic vision of where it is headed, or it has failed to adequately share that vision with its partners and clients. FondoMicro should prepare a targeted strategic plan that demonstrates how it intends to provide assistance in the future for the micro enterprise sector, and share this plan with its supporters and clients.
8. FondoMicro, with USAID's concurrence, sponsored the creation of the Banco de la Pequeña Empresa, which is designed to overcome the key limitations encountered in attempting to build a self-sustaining credit system through NGOs. This is a positive development, as it enables mobilization of domestic Dominican financial resources in support of at least the small business sector, and hopefully the micro business sector. However, the decision to use the Banco de la Pequeña Empresa for this purpose might skew resources away from informal micro businesses toward formal small and medium businesses, unless specific measures are taken to assure a focus on micro entrepreneurs.
9. The project lacked effective leverage to assure that potential NGO participants in the program would in fact adopt measures required to improve their managerial and organizational capabilities, since many NGOs had alternative sources of credit. The lack of a regulatory entity responsible for supervising prudential norms among NGOs further weakens their ability to serve as the basis for a sustainable credit system.
10. As noted in the mid-term evaluation, the anticipated role for FondoMicro as a clearing house for donor assistance to the NGO sector has failed to materialize.
11. Surveys of employment generation in the SME sector provide a reasonable basis to conclude that the program had a positive impact, though substantially below the planned level. The methods for delivering NGO financial and technical assistance utilized under the project are effective in achieving a high percentage of female participation in the program.

S U M M A R Y (Continued)

Principal Recommendations

1. Until FondoMicro prepares a defensible strategic plan that demonstrates how its activities will benefit the micro enterprise sector, USAID should withhold support for conversion of the STP loan resources to an endowment.
2. FondoMicro should develop a strategic plan to maximize access by micro entrepreneurs to the resources of the Banco de la Pequeña Empresa.
3. In projects of this nature, USAID needs to clearly monitor the performance of the implementing institution, and if it appears that there is a lack of commonality of purpose or of understanding of project conditions, an intensive effort is required to resolve the issue. If this cannot be achieved, USAID should consider suspending or canceling the project.
4. FondoMicro should undertake an in-depth analysis of the various organizational alternatives that could help it and its NGO clients to overcome their organizational/legal constraints.

Lessons Learned

1. Non-governmental organizations in the Dominican Republic have structural weaknesses that limit their utility in development of fully self-sustaining financial intermediaries serving as stable sources of credit for micro and small businesses. Legal prohibition on mobilizing savings deposits denies NGOs (except for cooperatives) access to domestic savings. Although some NGOs may have limited access to commercial bank loans, this is only in relation to the amount of resources they have been able to capitalize from past donations and retained earnings. This base is too limited to support the level of lending required by the large numbers of small and medium enterprises.
2. A second tier financing institution can only survive if it has access to resources at sufficiently cheaper rates than do its first level borrowers that it can generate the margins needed to cover its expenses. Careful financial planning is required before promoting creation of a second tier organization, to assure that there is a true economic niche for it.
3. Micro enterprises are able and willing to pay extremely high interest rates for short periods of time, and this can make them an attractive market for commercial lending. These high rates, however, probably also mask inefficiencies in the NGOs that are serving as credit channels.
4. The micro enterprise universe is quite diverse and has different needs. It is commonly assumed that loans to micro enterprises quickly translate into increased employment (the goal of the MSBD project). However, FondoMicro research has shown that over half of the micro enterprises in the Dominican Republic are at a subsistence level of existence, where increased incomes are immediately used to improve family living standards rather than hiring more employees. In addition, loans to micro enterprises involved in commerce and service sectors generate fewer new jobs than do loans to the manufacturing sector. The manufacturing sector requires longer term financing, however, often in higher amounts than do the other sectors. Depending on program objectives, donors like USAID may need to more narrowly focus their assistance on sub-sectors of the micro entrepreneurs.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

Micro & Small Business Development Project, Final Evaluation, April 1997, prepared by Wingerts Consulting, Santa Rosa, California

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

The following are comments of the FondoMicro (FM) Executive Director, Mr. Mario Dávalos:

- 1) The evaluation applies to FM criteria originally designed for the evaluation of 1st tier institutions operating in an open market, not for 2nd tier institutions operating in a small inelastic market of a few undercapitalized NGOs.
- 2) In analyzing the internal rate of return and long-term sustainability of our institution, the evaluation fails to give due weight to the particular historical situation whereby a given NGO representing 75% of the market returned credit funds to FM. As a result, these funds were then placed by FM in income earning financial instruments. By leaving this income out of the IRR formula and the sustainability analysis, the calculation is flawed. Moreover, the IRR was incorrectly calculated only until the end of 1996, without considering the effects of Bco. de la Pequeña Empresa, S.A. or the impact of our research and publications on the project's IRR. These are major FM outputs.
- 3) Some of the analysis (p.37 # 3), erroneously duplicates costs.
- 4) In association with this, the argument that FM's expenses are "high" compared to its level of portfolio fails to understand that FM does have the installed capacity to handle larger volumes of credit. It also ignores the fact that this ratio is high only because the NGO opposing the creation of the bank returned part of our portfolio.
- 5) In analyzing sustainability, the evaluation treats TA and research and publications as if they were to be financed forever from income generated internally. The evaluation fails to realize that these are 100% financed term project components. By observing that FM could not cover these costs if they were not subsidized the evaluation fails to understand that under that scenario FM may not offer these services at all.
- 6) The evaluation also fails to recognize the fact that some of the costs of occupying the current building are transitory costs (not long term or fixed costs) associated with the effort of establishing the Bank, and that these costs will be recuperated shortly, either by lease or sale of the property.
- 7) The evaluation repeatedly indicates and/or implies that FM willingly and knowingly withheld relevant information from USAID. This is not true. This is an offensive accusation that we reject in the strongest terms. We demand an indication of where or from whom the evaluators obtained this malicious information.
- 8) Contrary to what the evaluation says, FM did not receive assistance either from the International Executive Service Corps or the Interamerican Foundation. In both cases FM was only a booking unit to channel USAID funds.
- 9) Throughout the evaluation, it is not clear which of the negative criticisms refers to the original project designed by USAID, and which refers to FM's actions.
- 10) The evaluation repeatedly refers to a supposed bias of FM against cooperatives. This is not true. FM does fund cooperatives, passes part of its own USAID grant to them through AIRAC, and has a working arrangement with that institution. FM simply has not been willing to overcrowd AIRAC's efforts and plans.

Finally, we want to finish our comments reproducing two statements made by the Chief Evaluator, Steve Wingert, in an e-mail sent to me through Efraín Laureano, of the USAID/DR Mission right after he submitted the evaluation to the Mission: 1- "Obviously, I am not an impartial observer, having served USAID for many years. However, it appears that after unsuccessfully attempting up to 1992 or so to convince USAID with problems with the project, FM has shifted to a pattern of passive resistance that is counterproductive for its long term growth". 2- "Finally, despite some of the criticism contained in the evaluation, which unfortunately were necessary given the structure of the scope of work and which in most cases refer to the project design, I do want to reiterate what is also mentioned in the report, i.e. that FM has done an excellent job of managing and protecting its resources and assets, and of seeking to resolve the legal/institutional constraints that interfered with achievement of the project objective".

June 2, 1997 at 11:05 am
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COMMENTS

The following are Mission comments:

The Mission believes the evaluation to be fair and objective. The bottomline for the Mission is that at the end of the project, FONDOMICRO possesses considerable USAID-disbursed microenterprise credit resources that are only marginally being utilized for direct benefit for microentrepreneurs. The evaluation clearly documents that the principal reason for this problem is the flawedness of the original project design and the inability of USAID and FONDOMICRO to work together to resolve the issue. The evaluation provides due credit to FONDOMICRO for its Small Business Bank initiative as a means of dealing with the problem. It also lauds FONDOMICRO's research and technical assistance efforts.

With the Mission downsizing from support for 4 to 2 strategic objectives by 1999, this project represents the termination of USAID direct support for the Dominican microenterprise credit sector. Our principal concern remains that this rather large resource base that USAID has left with FONDOMICRO be used to the maximum extent possible for the direct benefit of microentrepreneurs.

The evaluation should prove helpful to other Missions that might be considering NGO based approaches to microenterprise credit delivery, the creation of 2nd tier lending institutions, or the creation of formal banking institutions such as the Small Business Bank.

June 10, 1997 at 3:23 pm
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CALENDARIO DE VISITAS
EVALUACION PROYECTO MSBD USAID
17 DE MARZO al 2 DE ABRIL, 1997

Lunes 17 de Marzo. 1997.

9 am Sr. Brian Rudert, Jefe del Equipo Económico de USAID, y su equipo de economistas compuesto por los Señores Efraín Laureano, Luis González y Patricia Hernández

3 pm Lic. Luis Martínez, Jefe de Asistencia Técnica de FondoMicro.

Martes 18 de Marzo. 1997.

9 am Visita a ADOPEM donde nos entrevistamos con la Dra . Mercedes Canalda y con la Lic. Mercedes de Beras Goico. También fueron visitadas las siguientes Micro-empresas asistidas por esta ONG:

- 1) Auto-adornos, atendida por la Srta. Vanessa Rodríguez, más tres empleados adicionales.
- 2) Salón Comedor propiedad de la Sra. Rosa Esther Hidalgo, que tiene también tres empleados.
- 3) Salón de Belleza Solange, propiedad de la Sra. Meris Pacheco, quien cuenta con 7 operarias.
- 4) Grupo solidario compuesto por tres mujeres, que trabajan bajo el liderazgo de la Sra. Pascuala Amanta Hernández. Es oportuno observar que esta tipología de micronegocios no genera poco o ningún empleo.

En la tarde del mismo día visitamos el Centro Dominicano de Desarrollo, Inc. (CDD), en la urbanización Maribel, de Herrera. Allí fuimos atendidos por la Lic. Esperanza Lora, Directora Ejecutiva y por la Contadora Patria Martínez.

Luego de un interesante diálogo con estas profesionales, fuimos acompañados por la Promotora Solangel María Arias Melo, quien nos llevó a dos microempresas, compuestas por:

- 1) Comedor de la Sra. Luz María del Carmen Rodríguez.
- 2) Taller de costura atendido por la propietaria, Ramona Torres.

Cada una de estas microempresas emplean una persona.

Miércoles 19 de Marzo, 1997.

ASOCIACION TU, MUJER es una ONG cuya directora es la Lic. Cristina A. Sánchez M., que desempeña una meritoria labor en barrios marginales de la capital, donde empezó brindando servicios de capacitación, solamente, gracias a lo cual han podido reducir la mortalidad infantil a niveles ínfimos. Han entrado últimamente en el servicio de crédito donde tienen aprobada una línea de crédito por un millón de pesos, la cual todavía no han utilizado. Argumentan que la base de datos es muy inflexible y por tanto de difícil manejo, por cuanto quisieran contar con otro sistema mas moderno y de mas fácil asimilación.

Ese mismo día a las 11 de la mañana visitamos el Banco Central, donde fuimos atendidos por el Lic. Miguel J. Escala, quien tuvo la gentileza de brindarnos amplias explicaciones del programa de RD\$300.0 millones (PROMIPYME) de pesos que el Gobierno piensa implementar dentro de pocos meses. Conversamos también sobre la composición del microcrédito en la República Dominicana y los criterios a sostenibilidad o autosuficiencia generalmente empleados dentro de todo el contexto económico nacional. Discutimos sobre las diferentes tasas de interés que intermediarán en el proceso, que integran: El Banco de Reservas de la República Dominicana y las ONGs que clasifiquen.

Jueves 20 de Marzo de 1997.

En esta fecha visitamos a la Lic. Maira Jiménez, Sub-Secretaria de Estado de Industria y Comercio y Directora Ejecutiva de PROMIPYME, con quien conversamos ampliamente sobre el Programa que el Superior Gobierno pondría en marcha a través del Banco de Reservas de la República Dominicana para otorgar Financiamiento a la micro y mediana empresa, que en principio involucra la suma de RD\$300,000,000 (Trescientos Millones de Pesos)

A tal efecto la Lic. Jiménez nos manifestó que ya ha comenzado el proceso de precalificación, utilizando un formulario que para tal efecto ha sido diseñado, por cuanto ya han sido visitadas varias Angoste, entre las que se destacan MUDE, ADOPEM, FONDESA, FDD, IDDI, ADEPE, ADEMI, COOPSEMUE, entre otras que también serán evaluadas.

En la tarde visitamos al Lic. Telésforo González, de la Fundación Interamericana, persona que nos brindó la oportunidad de conocer los trabajos que realizan en favor del país a través de grandes núcleos de habitantes en barrios marginales de la capital y otras ciudades del interior, con poco o ningún servicio de salubridad. Se trata de una organización muy importante que tiene su sede en la ciudad de Washington, D. C.

También estuvimos esa tarde en la Cooperativa de Servicios Múltiples, donde nos atendió el Lic. José Joaquín Suriel (Coopsemue), cuyas explicaciones resultaron en extremo valiosas, toda vez que esta cooperativa, una de las más importantes del

país, tiene relaciones con mas de 500 empresas, a través de las cuales registra una cartera de unos 17 millones al año. Estas operaciones se realizan con la ayuda del FondoMicro, pero muy especialmente por un interesante sistema de Ahorro y Créditos, en el cual, los clientes, son también propietarios de la Cooperativa.

El Lic. Caerle nos pregunta que sería del Sistema de Ahorro y Crédito, el cual se fundamenta en el otorgamiento de una tasa atractiva para el público ahorrante, si por el contrario se improvise una considerable reducción de la tasa active; cambio éste que obligaría a bajar la tasa pasiva y con ello la posible quiebra del sistema de ahorros que han sido implantados en las cooperativas de AIRAC.

Viernes 21 de Marzo de 1997.

Lic. Pedro Jiménez, Gerente Financiero de ADEMI.

Se trató de una visita muy breve, en vista de otros compromisos que tenía tanto el Lic. Jiménez como su acompañante el Lic. Manuel Ovalle Frías, Director de Planificación de esta importante ONG, que se caracteriza por haber alcanzado una admirable sostenibilidad económica, objetivo muy difícil de lograr en este tipo de organizaciones.

En resumen se nos informó que la dinámica de préstamos de ADÁN sigue el mismo rumbo de éxitos de los últimos años y ahora han llegado a un nivel de 50 millones de pesos por mes, lo cual habla de lo positivo de esta importante ONU.

Lunes 24 de Marzo de 1997

Visita a FONDESA, en Santiago de los Caballeros, donde fuimos atendidos por los Señores Quilvio Jorge y Juan Lantigua, Director Ejecutivo y Gerente de Operaciones, respectivamente. Esta ONG nació en el año 1982 y ya cuenta con 15 empleados, 6 de los cuales son agentes de crédito.

A partir del año 1993 se concentró en el servicio de crédito solamente, por cuanto hubo de instalar su propio servicio de caja, donde recibe los pagos y realice los desembolsos. Actualmente cuenta con 700 clientes y una cartera de 17 millones de pesos, cuya more es de un 5%, aunque los atrasos y vencimientos totales son de un 12%.

Aprovechamos para tomar muestras de campo acerca de varias de las Pequeñas y microempresas beneficiarias de crédito, las cuales se describen a continuación:

1) INDUSTRIA EL ARTE, un taller de costura propiedad de la Sra. María

Magdalena, que empezó a funcionar con 4 máquinas de coser y un financiamiento de 17 mil pesos. Hoy día cuenta con 25 máquinas y una línea de crédito ascendente a 300 mil pesos. Cuenta con una planta eléctrica moderna y de alta capacidad energética. En total su personal fijo es de 32 personas.

2) ARTESANIA LA FERIA, propiedad del Sr. Melanio Pérez, donde existe una empleomanía de 80 personas en total. Se trata de una empresa sólida que empezó con un préstamo de 20 mil pesos y ahora maneja una línea de crédito superior a los 500 mil pesos.

3) FABRICA DE CIGARROS "ANILLO DE ORO", propiedad del Sr. Euclides Abreu, que en su fase inicial recibió préstamos por valor de 40 mil pesos y ahora estas operaciones llegan a 500 mil pesos. Aunque actualmente laboran en esta fábrica 80 personas, algunas de las cuales con muy alta calificación tecnológica, se proyecta elevar el personal en 105 empleados.

En el curso de la tarde nos trasladamos a la ciudad de Moca, donde visitamos ADEPE, una dinámica ONG dirigida por Doña Dorca Barcasel, quien funge como Directora Ejecutiva. Esta empresa se funda en 1975 con 14 miembros y ahora cuenta con una membresía de 128 personas. Ha recibido dos financiamientos blandos del BID por la suma de US\$500,000.00 cada uno, el primero en 1981 a un 8% anual y el segundo en 1986 a un 20% anual, obviamente con las tasas de cambio imperantes en los citados años. Ambos empréstitos fueron otorgados a un plazo de 40 años y 10 años de período de gracia.

ADEPE tiene como política crediticia prestar de RD\$20,000 pesos hacia abajo a un 30% anual sobre el saldo absoluto, más una comisión de 3% como gastos de cierre pagados por adelantado. Los préstamos superiores a R\$20,000.00 pagarán un 36% más un 3% sobre el balance insoluto.

Tuvimos la oportunidad de conversar con cuatro (4) pequeñas empresas financiadas por esta ONG, que son:

1) RECONSTRUCTORA BRACHE, una empresa metal mecánica propiedad del Sr. Julio Brache, que recibe préstamos por la suma de R\$80,000.00. Aquí se emplean unas 6 personas en la reconstrucción de motores de automóviles.

2) MERCADITO VENTA DE FRUTAS Y VIVERES, propiedad del Sr. Rafael Antonio Rojas, negocio humilde que lo atiende el propietario y un hijo. Esta microempresa recibe préstamos por 10,000.00 pesos.

3) REPOSTERIA OVALLE, propiedad del Sr. Hipólito Ovalle, quienes mantienen una línea de crédito por la suma de 50,000 pesos, gracias a la cual han empleado 6 personas.

4) ARTESANIA JOANIS, propiedad de Domingo Antonio Rojas Fernández,

quien empezó a trabajar con su esposa solamente y un préstamo de R\$10,000.00 y ahora cuenta con un total de 18 empleados y un financiamiento de R\$30,000.00

Martes .5 de Marzo, 1997.

En horas de la mañana tuvimos la oportunidad de sostener un amplio diálogo con los señores, Lic. Luis Martínez, Dr. Mario Dávalos y el Dr. Frank Moya Pons, acerca de todas las actividades de FONDOMICRO, quienes hicieron resaltar que el sector de la Microempresa se ha consolidado como un factor importante de la economía nacional, gracias al trabajo desarrollado a través del proyecto. En tal ocasión emitieron una amplia duda acerca del futuro de este programa, dada la intención del Superior Gobierno de instaurar un programa paralelo con tasas de interés subsidiada. Insistieron en justificar la creación del Banco de la Pequeña Empresa, en cuya institución el Fondo Macro tiene un 40% de las acciones y el BID un 25%. El resto de las acciones están repartidas entre bancos comerciales, así como personas y entidades del sector privado.

En la tarde nos reunimos con el Dr. Fernando Ferrand, Director Ejecutivo de la FDD, quien nos informó que las relaciones con Fondo Macro fueron en principio muy positivas, especialmente en el área de asistencia técnica y adquisición de equipos de cómputos, gracias a los cuales cuentan con una base de datos que les permite un desenvolvimiento más efectivo. Sin embargo las condiciones de los préstamos resultaron inadaptables a las condiciones de esta ONG, por cuanto tuvo que renunciar a recibir esta oferta de servicio financiero.

Otro tema importante abordado en el curso de la conversación resultó ser el costo muy alto que pesaba sobre esta institución, que le ha obligado a tomar medidas drásticas, entre las que sobresale el despido de unos 65 empleados, ya que la sostenibilidad de la empresa estaba muy lejos de alcanzar el punto de equilibrio.

También sostuvimos un interesante diálogo con la Lic. Elba Franco de Cuervo, Gerente de Desarrollo y con el Jefe de Crédito, quienes, por los años que llevan laborando en la FDD, pudieron ampliar más los conceptos del Director Ejecutivo, llegando a manifestar que la política de amplio perfil social que se practicaba anteriormente, ha sido modificada en base a conceptos mejor identificados con el crédito sano.

Miércoles 26 de Marzo, 1997

En la mañana visitamos a MUDE, previa cita con el Lic. Virgilio Félix, quien funge como Sub-Director de Crédito. Es una ONG caracterizada por su evidente intención en favor del desarrollo de la mujer dominicana, que a partir del año 1993 introduce grandes modificaciones, que abarcan el inicio del crédito individual, y ya no únicamente a través de asociaciones campesinas, tal como ocurría hasta entonces. Otro cambio fundamental resultó ser la inclusión de microempresas localizadas en

diferentes centros urbanos del país.

Luego pasamos a contactar al Instituto Dominicano de Desarrollo Integral (IDDI), donde nos recibió el Sr. David Luther, quien nos manifestó que la tasa de interés es demasiado alta, por cuanto esta entidad rehúsa participar en los programas de crédito de FondoMicro.

Otra observación igualmente franca emitida por el Sr. Luther, se refiere a una donación por la suma de US\$2.0 millones otorgados a INTEC para impartir asistencia técnica, medida que no necesariamente comparte. Espera de todos modos que la entidad beneficiaria logre incluir organizaciones como el IDDI dentro de sus objetivos.

El Sr. Luther afirmó que acaba de contratar la firma Sotero/Peralta para efectuar una auditoría y el diseño de un nuevo organigrama de IDDI, acerca de tres componentes básicos, que son:

- 1) Actividad Financiera;
- 2) Actividad Lucrativa; y
- 3) Actividad social.

Posteriormente se incorporó al diálogo el Sr. Ramón Seiffe, Gerente de crédito, quien nos informó que los préstamos que otorga el IDDI mantienen una tasa de un 37% de interés sobre saldo insoluto y una comisión de cierre de un 6% en aquellas operaciones que no utilizan fondos del BID. Cuentan con 4 agentes de crédito.

Jueves 27 de Marzo, 1997.

Temprano en la mañana nos trasladamos al municipio de Sabana Grande de Boyá, donde visitamos la Cooperativa LA CANDELARIA, cuyo Gerente General es el Prof. Pedro María Mejía Ponceano.

Se trata de una empresa que en 1989 contaba con R\$500,00 en efectivo, solamente. Por otro lado las pérdidas alcanzaban los R\$100,000.00 en total.

Es en ese momento que bajo la asistencia técnica del Dr. Jeffrey Poyo y el sistema AIRAC, la cooperativa recibe un préstamo por la suma de R\$66,000.00, gracias a lo cual empezó a rehabilitarse en una esquinita del municipio, con poca o ninguna comodidad debido al limitado espacio de dicho local

Hoy día LA CANDELARIA cuenta con un edificio propio, con todas las instalaciones modernas. una cartera que sobrepasa los R\$10.0 millones de pesos, esparcida en unos 600 prestatarios y una mora de apenas 6%, la cual es manejada por cuatro personas que se responsabilizan del control y seguimiento de sus respectivas minicarteras.

Esta cooperativa constituye un verdadero ejemplo de eficiencia administrativa, incluye en sus activos una póliza de seguros con la empresa CUNA MUTUAL GROUP, de Wisconsin, U.S.A., que cubre daños por muerte, robo y otros, lo cual favorece a sus asociados, que sobrepasan la cantidad de 3,000 personas. Además, FondoMicro le mantiene una línea de crédito por valor de R\$600,000.00, a una tasa de un 16.25% anual.

Aprovechamos la oportunidad para visitar algunas microempresas financiadas por la cooperativa, cuyo detalle se expone de la manera siguiente:

1) TIENDA DE ROPAS "NOVEDADES HINEVANNIS", propiedad del Sr. Hipólito A. Calderón, la cual es atendida por su propietario, esposa e hijos, aunque en Diciembre emplea 5 personas. Las ventas diarias superan los RD\$17,000.00. Esta pequeña empresa recibe actualmente hasta RD\$20,000.00 en préstamos.

2) FABRICA DE BLOCKS "CARMEN", propiedad del Sr. Juan Ponciano Aquino, quien es uno de los pioneros de la Cooperativa y su primer ahorrista. Recibe RD\$100,000.00 en préstamos, pero últimamente su evolución comercial ha disminuido, como consecuencia del desalojo efectuado por el gobierno en el parque nacional "Los Haitises", donde tenía su mejor clientela. Tenía 18 empleados, pero últimamente se ha visto obligado a reducir el personal a 12 obreros.

3) "COMEDOR EL RINCONCITO" atendido por su dueña, la Sra. Lillian Celina Ramona Félix. Empezó tomando préstamos por la suma de RD\$5,000.- y ahora recibe el valor de RD\$20,000.00. Tiene 3 empleados.

Lunes 31 de Marzo, 1993.

Cita con el Lic. Virgilio Rafael Gerardo, Director Ejecutivo de la ASOCIACION DE INSTITUCIONES RURALES DE AHORRO Y CREDITO, INC., (AIRAC) quien nos recibió conjuntamente con el Lic. Ramiro R. Carrasco, Director Técnico de esta institución, la cual se distingue porque FondoMicro solamente aceptaba aquellas cooperativas que tuvieran el sello avalista de AIRAC. Sin embargo la ayuda recibida se limitó casi en su totalidad, a la Asistencia Técnica, toda vez que las cooperativas del sistema contaba con recursos propios suficientes, captados a través del ahorro. La tasa de depósito ronda el 17% al público, aunque AIRAC paga a las cooperativas un 14%.

Este formidable sistema de captación y movilización de ahorros, según nuestros anfitriones, se ve seriamente amenazado por el proyecto de RD\$300.0 millones del Gobierno Dominicano, en razón de que plantea el establecimiento de una tasa activa subsidiada, que en definitiva contrarresta el incentivo al ahorro, cuyo principal estímulo lo constituye una atractiva tasa pasiva. Es de este modo como esta cooperativa cuenta entre sus ahorrantes dominicanos que residen en el exterior.

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Otro factor que igualmente sería perjudicado es el relacionado con el cobro de préstamos, dadas las implicaciones socio-políticas que identifican esta clase de proyectos. En la estructura actual el cobro funciona correctamente, debido a que los propios miembros de la cooperativa participan en áreas importantes del manejo del crédito, como las siguientes:

- 1ro.) Cuidadosa selección de los prestatarios;
- 2do) Vigilancia del uso correcto de los desembolsos; y
- 3ro.) Comportamiento de pago de los clientes, especialmente en aquellos casos de morosidad, debido a que el dinero prestado y la empresa como tal, constituyen parte de su patrimonio.

Martes 1ro de Abril, 1997.

Banco Interamericano de Desarrollo, (BID) donde nos recibió el Dr. Víctor Mosquera, especialista sectorial, quien nos informó que esta institución viene trabajando desde hace tiempo con varias ONGs del país, especialmente ADEMI, TU MUJER y otras más.

El profesional visitado afirma que factores ligados a costos muy altos, impiden la autosostenibilidad de esta clase de organización, además de la morosidad de la cartera, la cual es generalmente muy frágil, toda vez que se trata de microempresas de muy débil economía. Actualmente el banco contempla cambios radicales en el contexto estructural de las ONGs, para que pasen a constituirse en Asociaciones de Ahorro y Crédito, para lo cual piensan contratar un Asesor de Crédito para que colabore en la instauración de una nueva estructura organizacional.

Sobre el convenio suscrito recientemente en España con FondoMicro, se plantea el fortalecimiento del nuevo Banco de la Pequeña Empresa, donde el BID adquirió el 25% de las acciones, mientras que FondoMicro es dueño de un 40%, y el 35% restante queda en favor de bancos comerciales y personas naturales. Este banco, a través de FOMIN, plantea la creación de dos ventanillas de crédito, así:

- a) La primera para asistir financieramente a la pequeña y mediana empresa; y
- b) La segunda para otorgar préstamos a la Microempresa.

Finalmente pudimos conversar con la Lic. Adalgisa Adams, quien maneja directamente la cartera de aquellas ONGs que mantienen relaciones con el BID, quien en términos generales confirmó y ratificó los conceptos de debilidad institucional emitidos por el Dr. Mosquera.

2 de Abril de 1997.

Encuentro con el Dr. Andrés Dauhajre Hijo, Director Ejecutivo de la Fundación Economía y Desarrollo, quién además es el Presidente de la Junta Directiva de

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FondoMicro. El Dr. Dauhajre Hijo estuvo acompañado del Dr. Mario Dávalos, director Ejecutivo de la misma entidad.

El tema principal del encuentro se concentró en analizar cual será el futuro inmediato de FondoMicro, lo que trajo como respuesta que actualmente se discuten y analizan en el seno de la Junta Directiva, varias alternativas al respecto. Sin embargo, confirman que no van a trabajar con un número considerable de ONGs, dada su deficiente organización, aunque dejan las puertas abiertas para aquellas pocas que logren mejorar sus imagen organizacional y su estructura económica.

Lo prioritario para el nuevo Banco es llegar a la microempresa, ya sea a través de organismos privados formalmente establecidos, pero no necesariamente por vía de ONGs. Por tal motivo ellos están trabajando en el diseño de una política no distorsionante que haga factible llegar a la microempresa sobre bases mas sólidas.

Es así como entre otras alternativas incluyen un posible programa de pensiones que reúna fuertes ahorros, el servicio eficiente de retiro de mercancías de las aduanas a un precio muy inferior al que actualmente existe, el cual es excesivamente costoso, entre otras nuevas fórmulas de acción que se contemplan para fines de estudio y evaluación. Esto descarta totalmente el criterio de USAID, que piensa que las ONGs constituyen el único recurso de aproximación y ayuda en favor de las ONGs, el cual consideran equivocado.

El Dr. Dauhajre Hijo insistió que ya el país acepta el concepto de microempresa como una sector muy importante de la economía nacional, gracias precisamente al trabajo realizado en tal sentido por FondoMicro.

Ya el Banco de la Pequeña Empresa ha comenzado a otorgar préstamos, que oscilan desde RD\$15,000.00 a un pequeño salón de Belleza, a una mediana empresa que acaba de recibir un financiamiento de RD\$200,000.00, lo que confirma que esta nueva entidad crediticia concentrará sus esfuerzos en la micro, pequeña y mediana empresa, de manera preferente.

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MICRO & SMALL BUSINESS DEVELOPMENT PROJECT

FINAL EVALUATION

PROJECT # 517-0254

SUBMITTED TO:
USAID/DOMINICAN REPUBLIC

APRIL 1997



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Acronyms

ADEMI	Asociación para el Desarrollo de Microempresas
ADEPE	Asociación para el Desarrollo de la Provincia Espaillat
ADOPEM	Asociación Dominicana para el Desarrollo de la Mujer
AIRAC	Asociación de Instituciones Rurales de Ahorro y Crédito
BPE	Banco de la Pequeña Empresa
BR	Banco de Reservas
CD	Certificate of Deposit
CDD	Centro Dominicano de Desarrollo
EU	European Union
FDD	Fundación Dominicana de Desarrollo
FIA	InterAmerican Foundation
FM	FondoMicro
FONDESA	Fondo para el Desarrollo
GDP	Gross Domestic Product
GODR	Government of the Dominican Republic
IDB	Inter-American Development Bank
INTEC	Instituto Tecnológico Dominicano
ISME	Informal Small and Micro Enterprise
MFI	Micro Finance Institution
MIF	Multilateral Investment Fund
MIS	Management Information System
MSBD	Micro and Small Business Development
MUDE	Mujeres en Desarrollo Dominicana
NGO	Non-Governmental Organization
PACD	Project Assistance Completion Date
PROMIPYME	Programa de la Micro, Pequeña y Mediana Empresa
RD\$	Dominican Republic dollars (as of 3/97 RD\$14 = US \$1)
SIC	Secretaría de Industria y Comercio
SME	Small and Micro Enterprise
SOW	Scope of Work
STP	Secretaría Técnica de la Presidencia
USAID	United States Agency for International Development
USAID/DR	United States Agency for International Development Mission to the Dominican Republic

Evaluation Abstract

The Micro and Small Business Development Project (#517-0254) began in June 1990 with the goal of increasing productivity and employment generation in the informal small and micro enterprise (ISME) sector. Its purpose was to develop FondoMicro into a viable, financially self-sustaining organization that could efficiently provide the financing and technical assistance needed by NGOs operating credit programs that directly serve the sector. The project was innovative in attempting to create a second tier source of financing for these NGOs. The project was authorized for LOP funding of \$7,250,000 over seven years, and was implemented through a cooperative agreement with FondoMicro, a Dominican non-governmental organization created for this purpose. The evaluation found that the project failed to meet its objectives because: a) there were few viable NGOs in the Dominican Republic that qualified, even with intensive technical assistance, to manage the project's credit resources; b) the NGO legal structure makes these organizations dependent on donor capital, as they are unable to mobilize domestic savings; c) FondoMicro's operating costs are excessive in relation to its limited loan portfolio; d) the lack of regulatory enforcement of prudential norms creates potential risk in using NGOs as lending channels; and e) FondoMicro lacks an articulated vision and strategic plan of how its resources will continue to benefit the intended micro enterprise sector. As the project neared completion, FondoMicro (with USAID approval) sponsored the creation of a for-profit Small Business Bank, which it believes will be a more effective structure to meet the credit and savings needs of the ISME sector. Specific mechanisms are required, however, to assure that the Bank does in fact serve the informal micro enterprise sector, rather than skewing its attention toward easier to reach small and medium businesses in the formal sector.

Executive Summary

The Micro and Small Business Development (MSBD) Project was approved in June, 1990, with the purpose of developing FondoMicro into a viable, financially self-sustaining organization that can efficiently provide the financing and technical assistance needed by NGOs operating credit programs that directly serve the informal small and micro enterprise (ISME) sector. The project's goal was to increase productivity and employment generation in the ISME sector. USAID planned a total contribution to the project of \$7,250,000, with a planned counterpart of \$30,891,000.

The project was implemented through a Cooperative Agreement between USAID and FondoMicro. FondoMicro (FM) is a not-for-profit foundation organized under the laws of the Dominican Republic with the objectives of building interrelationships between the various levels of the business community, strengthening the free enterprise system, and obtaining resources to be channeled to the SME sector. FM is organized into three operating divisions: credit, technical assistance and training, and research. USAID funds provided the capital for the credit fund and initially covered all operating costs of FM. As FM began to cover its operating costs, USAID's subsidy was reduced until it covered only the technical assistance, training and research activities.

Wingerts Consulting was contracted to carry out this final evaluation of the MSBD project in March, 1997, three months before the Project Assistance Completion Date. As of March 21, 1997, the actual level of USAID expenditures under the project was \$7,011,334. The actual level of counterpart contributions as of the end of December, 1996, was \$4,273,350.

FondoMicro surveys have substantiated that the informal small and micro enterprise sector is composed of nearly 300,000 businesses that employ an estimated 768,000 people, or approximately 26% of the economically active population in the Dominican Republic. There is rapid turnover within the sector, with an estimated 381 new businesses appearing daily, and 380 going out of business. Half of the SMEs are involved in commerce, a quarter in manufacturing, and one in six in the service sector. Thirty-seven percent of small and micro enterprises are owned and run by women. Those businesses with 10 or fewer employees (the micro business sub-sector) represent 97% of the businesses, while the remaining 3% are small businesses employing 11 to 50 employees. 77.4% of SMEs surveyed in 1993 did not use credit, and 14.4% used supplier credit (which is limited to specific inputs). The remaining 8.2% of SMEs had credit from bank loans, NGOs, and family members or friends. Half of the micro enterprises are at a subsistence level, where increases in business income results in improved family

welfare rather than employment opportunities. In the other half, growth of the business translates quickly into substantial increases in jobs.

The NGOs that have used or are using FondoMicro credit to serve the SME sector are very diverse in size and potential. Several are large organizations with dynamic, self-sustaining growth. These organizations have access to a variety of funding sources, and use FondoMicro resources because they are less expensive than the alternatives. A second category includes savings and credit cooperatives, whose primary focus is on mobilizing savings from, and lending to, their members. These organizations tend to use FondoMicro credit as an emergency valve to cover requirements for specific periods when savings are insufficient to meet priority loan demand. The final category includes smaller NGOs that provide valuable credit services to small and micro entrepreneurs, but have limited volume of lending and less developed management experience.

FondoMicro efficiently managed its responsibilities under the Cooperative Agreement and achieved a rapid start-up. By the time a mid-term evaluation was prepared in 1994, FondoMicro had surpassed many of its seven year targets and was judged destined for success. However, at that time 83% of its loan portfolio was with a single NGO (ADEMI), and in 1995 ADEMI withdrew from the program primarily because FondoMicro had begun plans to create a Small Business Bank. ADEMI indicates the decision was based on concern that FondoMicro was abandoning the original program intent, while others believe that ADEMI was concerned about competition from such a bank. As a result of ADEMI's withdrawal, FondoMicro's loan volume declined by 72%, and it has since been unable to generate the level of outstanding loans envisioned in the project. The reduced loan volume eliminated FondoMicro's need to obtain private bank financing, and this, along with the decision of other donors not to use FM as a channel to the sector, explains much of the shortfall in planned counterpart funding.

Initially, foreign technical assistance was to provide advice to participating NGOs to resolve administrative and credit management issues. However, early in the project, FondoMicro and USAID agreed that it would be more cost effective to use Dominican advisors contracted by FondoMicro. Participating NGOs unanimously praised the appropriateness and quality of this assistance, and especially the computerized systems provided by FondoMicro for portfolio management and accounting. At times it was apparent, however, that FondoMicro advisors were treated as additional (free) staff by NGO management, which probably reduced their impact. The quality of the research publications was superior, and these documents have succeeded in greatly improving public and private sector understanding of the role and nature of micro enterprises in the Dominican Republic.

Five key issues surfaced during the evaluation and are addressed throughout this document:

1. Continued dependence of NGOs (and FondoMicro) on donor capital: To be viable as a second tier lending institution, FondoMicro must access capital at a cost that allows it sufficient spread so as to cover its costs, and it must have a pool of clients that allows it to select those with the greatest potential. As an NGO, FondoMicro cannot accept deposits from the public, and therefore cannot benefit from the wider margins available from financial intermediation. FM can qualify for private bank loans given the size of its net worth, but even the prime lending rate is above its current on-lending rate. FondoMicro's operations are in effect subsidized by the fact that it has a large pool of free capital, but if it were to reach a level of activity where it needed to access additional resources it would begin to lose money. The participating NGOs are similar in that they are unable legally to receive savings deposits, and their access to bank loans is severely limited. If an appropriate opportunity cost is assigned to the donor capital that supports this system, the total expenses are nearly double the interest income.

Several NGOs have been able to demonstrate dynamic ability to access donor capital of sufficient quantity that they can in fact leverage higher cost bank capital (ADEMI and to some extent ADOPEM). However, of the US\$40 million available to ADEMI for micro enterprise lending, only 10% is available on commercial terms, with the rest representing either donated or highly subsidized capital. NGOs do have a role to play in micro enterprise lending, but it is apparent that they and FondoMicro do not have the legal or financial structures upon which a market based, fully self-sustaining financial network (the project purpose) can be built. The role for NGOs may instead be a transitory one, using the mystique and dedication of NGO leaders to create lending programs with broad outreach. After this stage, the NGOs may need to convert to entities with greater potential for permanence.

If NGOs remain tied to (declining) donor financing, they will not develop the outreach potential required by a sector that employs one of every four Dominicans.

2. Low level of loan activity: The low level of FondoMicro loan activity is due to the withdrawal of ADEMI from the project and the inability of FondoMicro to locate viable substitute organizations. While there may still exist potential for incorporating additional NGOs into the program, the evaluators have concluded that the number of additional NGOs that can meet the objectives of the project is very limited, i.e. NGOs that have the potential to function as efficient, hard-nosed lending institutions with sufficient volume to cover all costs. If there were a number of such organizations, it is likely that they would have come forward after seven years of FondoMicro existence and either obtained services or complained to USAID about FondoMicro's negligence. Independent sources interviewed, including IDB,

InterAmerican Foundation, and AIRAC staff, indicated that they believe that FondoMicro has made a good faith effort to locate additional clients, but that the number available is far less than USAID assumed at the start of the project. The one area where the evaluators believe that there is potential for developing additional clients is with the AIRAC cooperatives. However, as these organizations seek to maximize savings mobilization as a source of loan capital, their demand for FondoMicro resources is limited to periods of cash shortage. FondoMicro cannot significantly expand lending to its present clients without becoming over exposed.

As of December 1996, FondoMicro's loan portfolio represented only 32% of its assets, and friction has developed between FondoMicro and USAID over the fact that less than half of the resources USAID has provided are being used by the target beneficiaries. FM has attempted to address this issue when investing its excess cash by requiring banks to use these resources for micro enterprise lending. Although helpful, this measure is at best temporary, and USAID could have achieved these results by making such deposits directly without paying FondoMicro's operating costs.

To seek a more permanent solution, FondoMicro has sponsored the creation of the Banco de la Pequeña Empresa (BPE). In its presentation requesting USAID concurrence with this investment, FM indicated that the BPE would focus on the small as opposed to micro business sector, therefore not competing with its micro enterprise clients. However, in its agreement with the InterAmerican Development Bank to obtain Multi-Lateral Investment Fund (MIF) share capital for the BPE, FondoMicro agreed to transfer its lending activities to this Bank within two years (FM argues that this refers to any increased lending above its outstanding portfolio at that time, but this interpretation has not been documented). It appears that FondoMicro either lacks a clear strategy of how to reach the target micro enterprise audience, or it has not been forthright in communicating to USAID its intentions for working with this sector.

3. High administrative cost of FondoMicro and the NGOs in relation to the size of the loan portfolio: The combined operational costs incurred by FondoMicro and the participating NGOs for managing an average portfolio of RD\$27.3 million in 1996 was RD\$12.4 million, or 46%. Although the transaction costs incurred in serving micro businesses are known to be high, this level of expense is not sustainable. FondoMicro's operating costs, excluding direct costs of its technical assistance and research programs but including indirect costs related to these programs, equaled about 20% of its portfolio. A "second tier" lending institution cannot afford this ratio. The origin of this problem is that FondoMicro was designed to manage a much larger portfolio than it now has, and its management talent has been occupied with other tasks. FM now must decide on its future role and realign its management structure to fulfill that role in a cost effective manner.

4. Lack of regulatory control over prudential management by the participating NGOs: There are no established mechanisms requiring periodic auditing of NGOs and enforced compliance with prudential management norms. If these entities were to have a long-term role as financial intermediaries as envisioned in the project, some mechanism would be needed to assure the stability of the system. This issue also argues for eventual transition of NGOs involved in micro enterprise lending to other organizational models, such as savings and loan cooperatives, that are subject to such supervision.

5. FondoMicro's future: The FM President and Executive Director reiterated to the evaluators that FondoMicro remains committed to development of the micro enterprise sector, and is contemplating a variety of new initiatives to benefit the sector. However, FondoMicro's future role is not now clear, especially in light of its agreement to transfer its lending activity to BPE. The income FM can receive from its investment in the BPE, as well as from any residual direct loan activity and other investments, could support the development and evolution of organizations (NGOs, coops, etc.) so they can better access BPE resources and relend to micro enterprises, countering what is likely to be a natural tendency by the BPE to focus on more up-scale clients. A complementary action would be to deposit FondoMicro's cash resources in the BPE with the condition that they be used for loans below a certain amount, assuring that they will be used by micro enterprises.

Micro enterprise lending may be very profitable for the BPE, giving it a natural reason to focus on the sector. Micro entrepreneurs frequently pay NGOs effective annual interest rates of over 70% for loans of up to a year. The alternative sources of funding for micro entrepreneurs carry interest rates of as much as 20% per week. If the BPE adopts cost effective lending procedures that have acceptable levels of risk, BPE could demonstrate that private banking structures can profitably reach this sector. If FondoMicro can facilitate this linkage, it will have produced benefits more than commensurate with USAID's innovative investment.

However, it is far from clear whether FM's NGO clients will agree with a strategy to shift their credit supply to the BPE, and considerable opposition is likely to arise if this is the chosen course of action. It is essential that FondoMicro develop a strategic plan of how it intends to benefit the micro enterprise sector in the future, and then communicate this strategy clearly to its multiple audiences. Failure to do so could undermine its institutional credibility.

Project Identification Data Sheet

1. Country: Dominican Republic
2. Project Title: Micro & Small Business Development Project
3. Project Number: 517-0254
4. Project Dates:
 - a. Project Authorization: June, 1990
 - b. First Project Agreement: July, 1990
 - c. Planned Project Assistance Completion Date: June, 1997
5. Project Funding:
 - a. USAID bilateral obligations (grant) (3/21/97): \$7,250,000
 - b. USAID expenditures and accruals (3/21/97): 7,011,334
 - c. Host country counterpart funds (12/31/96): 4,273,350
6. Mode of Implementation: Cooperative Agreement with FondoMicro
7. Project Designers: USAID/Dominican Republic
8. Responsible Mission Officials: (for life of project to date)
 - a. Mission Directors: Ray Rifenburg and Marilyn Zak
 - b. Project Officers: Ann Beasley, Doug Ball, Luis Gonzalez
9. Previous evaluations: Mid-term evaluation, J.E. Austin, January, 1994.

I. Introduction

A. Purpose of Evaluation

The Micro and Small Business Development Project was approved in June, 1990, with the purpose of developing FondoMicro (FM) into a viable, financially self-sustaining organization which could efficiently provide the financing and related credit program management assistance needed by NGOs operating credit programs for the informal small and micro enterprise (ISME) sector. During the design of the project, USAID supported the creation of FM as a non-profit, non-governmental organization established under Executive Order 520, Non-Profit Associations Law (1920). FondoMicro's chartered objectives are to: a) Improve the existing interrelationship between the various levels of the business community which contribute to the development and growth of the economy and promote private initiative; b) strengthen the free enterprise system of the Dominican Republic; and c) obtain financial resources from internal and external sources through grants, loans, bond issues, and any other legal means, in order to channel these resources to the small and micro enterprise sector.

This evaluation was requested by USAID/Dominican Republic in order to ascertain the progress of the Project in meeting its objectives, identify significant problem areas or constraints that inhibited their attainment, and determine to what extent FondoMicro has the appropriate strategy and operating systems to provide sustainable and continuous support to microenterprise NGOs after the PACD of the Project. The Project will reach its planned completion date in June 1997, and at the time the evaluation was undertaken 97% of Project resources had been expended.

Wingerts Consulting was contracted by the USAID Mission in the Dominican Republic to conduct the evaluation. The evaluation team consisted of two people: Mr. Stephen Wingert, Team leader, and Mr. Frank Astacio, NGO credit specialist.

B. Methodology used

Prior to arrival in the Dominican Republic, background documents were reviewed by each team member, including the Mid-term Evaluation prepared by J.E. Austin Associates. Questionnaires were then developed for use in interviews with participating NGOs and with micro entrepreneurs (see Annex C). Upon arrival, the team held introductory meetings with USAID staff and with the FM Director of Institutional Development (the FM President and the Executive Director were not in-country at that time). The team then met with each of the seven NGOs that currently have lines of credit with FM, as well as four other organizations that have received assistance under the Project (see Annex A for full list of contacts). Finally, the team met with the Executive Director of the Association of Rural Savings and

Loan Institutions, which channels technical assistance support from FondoMicro to its member cooperatives, several of which use FondoMicro lines of credit in serving the SME sector. During the visits to the NGOs, a total of eighteen microenterprises were visited to discuss program impact.

The evaluation team also met with two officials involved in an effort to create the Fund to Promote and Assist Micro, Small and Medium Businesses (Spanish acronym PROMIPYME), financed by the Government of the Dominican Republic (GODR). This program is designed to create a new financing mechanism for micro and small entrepreneurs, and is the first GODR program created specifically to support this sector. The team also met with officials of the Inter-American Development Bank (IDB) and the Interamerican Foundation (FIA), which also provide support for the sector.

The team worked within FondoMicro reviewing office files for each client, and reviewing accounting and progress reporting data for the participating NGOs and for FM itself. Upon his return to the Dominican Republic, the team met extensively with the FondoMicro Executive Director and the Director of Research, and with the FondoMicro President. The team received copies of and reviewed each of the eleven publications prepared by the Office of Research.

The draft evaluation report and verbal debriefing were provided to the Mission on April 4, 1997. A verbal debriefing was also provided to the FondoMicro Executive Director and key staff on Thursday, April 3, 1997. The USAID Mission and FondoMicro provided comments on the draft and a final report was prepared and submitted to the Mission on April 18, 1997. The Spanish version of the report was submitted one month later.

This report begins with a brief description of FondoMicro and of the project, and an explanation of current USAID guidelines for support to microenterprise projects. The report is then structured in keeping with the five task areas included in the scope of work (SOW), responding to each of the specific questions included in the SOW. Summary presentations of lessons learned and recommendations complete the report.

C. Acknowledgments

The evaluation team has received excellent collaboration and assistance from FondoMicro and USAID staff, and has enjoyed frank and open conversations with the officials of the many NGOs and other organizations that are participating in or associated with the project. The frequent meetings and support provided by USAID/DR Strategic objective team #1 (Brian Rudert, Luis Gonzalez, Efrain Laureano, and Patricia Hernandez), as well as by Mission Director Marilyn Zak,

were critical to the successful completion of the evaluation. Equally important, the FondoMicro President, Andres Dauhajre, Hijo, Executive Director, Mario Dávalos, Director of Institutional Development, Luis Martínez, and Director of Research, Frank Moya Pons, provided extremely important insights into the status and direction of FondoMicro, and the important decisions ahead.

II. Background

A. FondoMicro and the ISME sector¹

FondoMicro (FM) was legally recognized in May, 1989, as a non-profit foundation. It has a nine person Board of Directors, composed of leading figures from the Dominican banking, industrial, and trade sectors. It grew out of an informal organization made up of the leaders of the principal micro enterprise lending organizations in the Dominican Republic.

At the time FM was created, a study by Management Systems International estimated that there were approximately 145,000 informal small and micro enterprises (ISMEs) in the Dominican Republic, with an unmet credit demand in excess of \$90 million. A more in-depth analysis of the ISME sector by Michigan State University in 1992 indicated that there were closer to 340,000 ISMEs in the Dominican Republic. These businesses are estimated to account for 23% of the country's GDP and 27% of the employment of economically active Dominicans.

Of every one hundred small and micro enterprises in the Dominican Republic, 97 have less than 10 employees, and 40% of these firms have only one employee (who is also the owner). Approximately 52% of these businesses function at a subsistence level, where profits from the business are used directly to support the living costs of the owner and her or his immediate family. Increased profits in these firms is reflected in improved family living standards, and recent studies have shown that new jobs are created within this segment at only slightly over 1% per year. Two-thirds of these firms are involved in commerce activities, and they tend to be short-lived (in a recent survey 50% of the firms identified had been in existence for less than one year).

The remaining 48% of the small and micro enterprises show sustainable growth characteristics, and increased profits in these firms usually translate into increased employment, in addition to standard of living improvements for the owner and his or her family. Annual employment growth among these firms in recent years has varied from 8 to 18%. These firms are more likely to be involved in small scale manufacturing activities, and have more intensive needs for credit. The cost of creating a job in the ISME sector was estimated in 1987 to be between \$700 and \$1200, as opposed to \$42,000 in the industrial free trade zones.

¹Much of the data presented in this section was developed by FondoMicro's Research Program, and has been published in eleven publications. Principal authors of these publications are Frank Moya Pons, Marina Ortiz, Mirtha Olivares, Patricia Cely, Miguel Cabal, and Jaime Aristy Escuder. A full listing of these publications is included in Annex B.

FondoMicro's objectives, according to its charter, are to a) improve the existing interrelationship between the various levels of the business community which contribute to the development and growth of the economy and promote private initiative; b) strengthen the free enterprise system of the Dominican Republic; and c) obtain financial resources from internal and external sources through grants, loans, bond issues, and any other legal means, in order to channel these resources to the SME sector. FM has three main operating departments: credit, technical assistance and training, and research. Although USAID is by far the largest supporter of FondoMicro, it also receives assistance from the Interamerican Foundation and the International Executive Service Corps.

FondoMicro's operations grew rapidly during its first four years of operation. However, by 1994 83% of all credit resources managed by FM were placed with one NGO, ADEMI. In 1995, ADEMI withdrew from the program, dramatically reducing the scale of FondoMicro activities. As of December, 1996, FondoMicro had a net loan portfolio of RD\$30.5 million, channeled through five NGOs, with an average loan portfolio for the year of RD\$27,265,500. During 1996, new loans averaging about \$450 each were made to 4,524 entrepreneurs by NGOs using FondoMicro resources. Eighty seven percent of new loan recipients were women. Thirteen organizations received technical assistance support from FM during 1996, and six new research documents were published. Finally, in order to diversify and consolidate its support to the ISME sector, in March, 1997, FM completed the creation of the Banco de la Pequeña Empresa (BPE). FM owns 42% of the shares of this Bank, with the rest owned by the Dominican private sector and the IDB's Multilateral Investment Fund (MIF).

B. The Micro and Small Business Development (MSBD) Project

USAID authorized the MSBD project in June, 1990, and all conditions precedent to disbursement were met by November, 1990. The project goal was to increase the productivity and employment generation of the informal small and micro enterprise sector in the Dominican Republic. It was estimated that a total of 30,000 new permanent jobs would be generated by the sector as a result of the project. The project purpose was "to develop FondoMicro into a viable, financially self-sustaining organization that can efficiently provide the financing and related credit program management assistance needed by the NGOs operating credit programs for the ISME sector." The project paper clearly stated that the objective was to create, by the end of the project, a permanent organization whose portfolio, and the portion of the ISME sector being covered by it, would continue to grow independently of any assistance from USAID.

Project assistance was designed to develop and strengthen FM's internal institutional capability; develop and implement its credit program; and develop and

implement its ability to provide credit management assistance to the participating NGOs. Initially, organizational and credit management technical assistance to the NGOs was to be provided by international advisors, but this responsibility was assumed directly by FondoMicro in November, 1992.

A mid-term evaluation of the project was carried out in July 1994 by J.E. Austin Associates. The evaluation concluded that the project was well managed and successful in meeting its mid-term targets. It concluded that FM credit "has helped a number of NGOs to expand their lending activities...(and its)...technical assistance has enabled a number of NGOs to greatly improve their credit manage and recovery capabilities." The mid-term evaluation concluded that several key project assumptions were erroneous. For example, it noted that potential NGO clients required more intensive and prolonged technical assistance before qualifying for program participation, and that the number of NGOs that could potentially meet the project criteria was substantially less than planned. Secondly, the mid-term evaluators found that the project assumption that all donors would agree to channel resources through FondoMicro was also incorrect. Third, they noted that the assumption that a second tier organization was needed to channel commercial bank credit to the NGOs was in error, as the stronger NGOs could obtain these resources directly at a lower rate. Finally, the evaluators noted that the project was misnamed in that it only addressed the needs of the micro enterprises, and recommended that the Mission support FondoMicro's request to utilize project reflows to help create the Banco de la Pequeña Empresa (BPE).

As a result of the mid-term evaluation, the USAID Mission formally amended the Cooperative Agreement with FondoMicro, modifying end of project goal, purpose, and output indicators (as will be described in sections IV.A. and VI.A. of this evaluation), and agreeing to use of project reflows for investment in creation of the BPE.

The \$7,250,000 authorized for this project have been fully obligated. Of this amount, as of March 21, 1997, \$7,174,175 have been committed, and \$7,011,334 have been expended. The project will terminate on its planned PACD of June 30, 1997. There are no pending procurement actions, and project close out can be expected to proceed normally.

C. USAID Microenterprise Policy

USAID's guidance, designated Section 219 (Microenterprise Development) under the Automated Directives System, took effect October 1, 1995, and applies to all USAID projects supporting microenterprise development. While it is often unfair to hold a project up against a standard adopted after its design, the principles outlined in the new USAID guidance reflect many of the principles espoused by

FondoMicro. In addition, as this final project evaluation is charged with also assessing FondoMicro's strategy for providing sustainable and continuous support to microenterprise NGOs after the PACD of the project, the evaluators consider a number of the principles outlined in the policy document to be highly relevant. In any case, the guidance serves as a useful frame of reference for this evaluation.

The USAID guidance limits the term "microenterprise" to firms with ten or fewer employees that have low levels of assets and income (note: FondoMicro uses this same definition). For micro finance activities, the guidance requires:

- (1) that assistance to any micro finance institution (MFI) be predicated on that MFI's willingness and ability to set interest rates and fees sufficient to cover its full long-run costs of lending;
- (2) that MFIs demonstrate firm control over loan delinquency in order to be eligible for USAID assistance;
- (3) that every USAID-assisted MFI provide a credible written commitment to attain full financial sustainability (profitability) on its financial service activities within no more than seven years of the initial provision of USAID assistance, while using USAID assistance to expand the availability of financial services to micro entrepreneurs and other poor people; and,
- (4) that assisted MFIs provide annual reporting of key financial and operational performance and outreach data, suitable for assessing progress toward financial sustainability.

An accompanying Policy Paper on Microenterprise Development provides more specific guidance, and emphasizes the principles of best practice in micro finance development. An Annex to this document, "Minimum Reporting for Micro finance Institutions," specifies the indicators of outreach and financial and operational performance, which are to be reported by all USAID-assisted MFIs and used by USAID to assess program viability and success.

There are a number of important concepts in this guidance that are relevant to this evaluation, including the following:

- a. In pursuing USAID's goal of fostering the development of viable financial institutions offering unsubsidized, high-quality financial services to poor micro entrepreneurs, "...a financial institution is said to be providing financial services on a 'subsidized' basis if the interest and fees collected from clients for those services fail to cover the institution's full long-run costs." USAID's

policy guidance is that it is not sufficient that the organization be financially self-sustaining, but that interest and fee income should fully cover long-term costs. An organization that is financially self-sufficient due to reliance on cheap, donor provided capital does not meet this criteria. To assure compliance with this principle, in performing financial analysis of MFIs, opportunity cost factors are to be assigned to grant or low-interest loan resources provided by USAID or other donors.

- b. In assessing whether there is a favorable policy environment in the country to enable support for a microenterprise project, one of the concerns to be addressed is to "...urge the elimination of subsidized credit to small and microenterprises by government-owned financial institutions, as well as the removal of requirements that banks channel a specified share of their lending toward small and micro firms."
- c. USAID support for implementing organizations seeks to achieve three goals: deep outreach (reaching very poor micro entrepreneurs); broad outreach (reaching large numbers of the poor); and emphasis on female micro entrepreneurs.
- d. To be eligible for USAID assistance, "every² organization providing financial services must provide a credible commitment to attain full financial sustainability in the medium term, while using USAID assistance to expand the availability of financial services to micro entrepreneurs and other poor people. Attaining financial sustainability will invariably require reaching a significant scale of program outreach, and will in turn provide the basis for continued growth in outreach."
- e. "USAID support for *any* microenterprise development program requires a clear and continuing focus on providing services to poor micro entrepreneurs." "...an ongoing organizational commitment to provide those services *to the poor* is necessary to ensure that USAID support ultimately leads to a greater flow of financial services to the target population. Without such commitment, MFIs may fall prey to the temptation to abandon the original target population and focus attention upon less disadvantaged clients...using more traditional financial practices."
- f. "USAID's concern is that organizations receiving its support maintain an effective commitment to include the poor in their service delivery, not that they exclude other groups." "Nevertheless, in all cases the success of

²This and subsequent italicized words appearing within quotation marks are as they appear in the policy guidance document.

USAID microenterprise development support to any micro finance institution will be judged upon its success in improving the availability of financial services *to poor micro entrepreneurs, particularly poor female micro entrepreneurs.*"

- g. "USAID officers charged with managing the assistance activity are expected to use performance indicators - particularly the outreach indicators and analytical performance indicators (ref full financial sustainability) - to track the assisted organization's performance relative to the goals negotiated with the Mission, and to consider these elements of performance in disbursement decisions."
- h. "Non-financial operations of the organization must meet requirements...(for) the provision and tracking of acceptable indicators of cost-effectiveness and appropriate levels of cost recovery."

III. Project Relevance

A. Policy and enabling environment

Questions: To what extent have factors in the broader policy and enabling environment for SMEs and the NGOs that serve them changed since the project design? To what extent have these changes impinged upon FondoMicro's ability to affect the SME sector?

Findings:

1. Over the seven year life of the MSBD project, there has been a dramatic increase in awareness of the size and importance of the SME sector among both public and private sector officials. This increased awareness is accompanied by a greater understanding of the nature of the sector and its needs. While there are few specific examples of officials adopting policy measures that alleviate constraints to SME growth, the increased awareness and understanding of the sector creates a much more positive environment for such actions in the future. One example of the positive impact caused by this change in attitude was the legal recognition of the Banco de la Pequeña Empresa, which probably would not have been authorized five or ten years ago. Many attribute this increased awareness to the quality of FondoMicro's research and publication activities.
2. Since 1990, a number of actions have been taken to open the Dominican economy and to move away from the import substitution development strategy that constrained economic growth. Important financial sector reform measures have also been adopted which are making the formal banking sector more competitive. These measures increase economic growth rates and the profit potential for the SME sector.
3. There has been dramatic political transformation in the Dominican Republic since the project was designed. Although this has at times created considerable short-term uncertainty and has depressed economic activity, the evolution toward a more stable democracy also enhances potential for growth of the SME sector.

Conclusion:

1. In general, changes in the broad policy environment have been favorable to growth of the SME sector and of institutions like FondoMicro that support it.

B. GODR policies/regulations

Questions: To what extent are current GODR policies/regulations affecting the activities of NGOs providing credit to SMEs, especially with regard to stimulating domestic credit availability and market-entry and expansion opportunities for these NGOs, including FondoMicro's prospective clients?

Findings:

1. Real interest rates in the Dominican Republic are quite high. The prime lending rate is currently slightly over 20%, and most commercial bank loans to the public are made at 28% to 30%, while inflation in 1996 is estimated to have been about 6%. The primary cause of these high rates is a tight monetary policy that is dictated by the need to maintain foreign exchange equilibrium and to compensate for fiscal shortcomings. In one sense, this policy environment is favorable to microenterprise lending NGOs, as it allows them to charge the high rates of interest required to meet their costs without fear of competition from the formal financial sector. Unfortunately, this can also allow the lending NGOs to fail to confront inefficiencies that limit their real growth potential. In addition, the high rates of interest dampen economic growth, which lowers the profitability of the SME sector. The high rates also greatly increase the cost of potential domestic sources of capital, access to which will be necessary in order to replace the declining availability of these funds from international donors.
2. The GODR has made limited progress in privatizing provision of services. Although electricity service is much more reliable, access to electrical connections, water, garbage removal, and other services is constrained. As in most countries, where services are limited, access by the informal SME sector suffers the most, and is a limiting factor in its growth.
3. The GODR recently announced it's intention to create an RD\$300 million fund (equivalent to US\$21.4 million) for loans to medium, small and micro enterprises. This fund (known as PROMIPYME) was to be managed by the Secretaría de Industria y Comercio (SIC), through an agreement with the parastatal Banco de Reservas (BR). The intent of program managers was to retail a portion of these resources directly to small businesses at 14.5% annual interest, and to wholesale the rest at 10% to NGOs specializing in microenterprise lending. Both of these rates represent highly subsidized government lending to the sector.

Many NGO leaders indicated to the GODR that the PROMIPYME program would have a negative effect on the sector as designed, and the GODR announced while the present evaluation was in process that it had decided to cancel the program before it began due to growing liquidity problems in

the GODR. However, expectations concerning the program already have had a negative impact on the SME lending NGO sector. Small businesses in particular were increasingly delaying loan applications while they waited to see if less expensive capital might be available from the government. The NGOs visited by the evaluation team were all seeking to qualify for access to these resources, but most expect the program (if it actually ever gets started) to be small and short-lived, and they were therefore also interested in maintaining access to more expensive resources from FondoMicro and other sources.

Conclusions:

1. Analysis of the long term sustainability of FondoMicro should take into consideration that real interest rates in the Dominican Republic are high, and that over time they should tend to decrease.
2. The proposed PROMIPYME program already had a negative impact on the SME lending sector before its start-up was canceled, and would significantly undercut the NGO institutional network if the program is ever fully funded and implemented. At the level of the first tier NGOs, PROMIPYME would siphon off the more profitable small business borrowers, leaving them with only the micro borrowers who are much more expensive to reach and service. Also, to the extent the NGOs become reliant on unsustainable subsidized interest rates, they will fail to undertake measures required to improve their operating efficiency. Finally, subsidized programs of this nature inevitably fall prey to partisan political pressures, which would distort the nature of the SME NGOs.

As a second tier organization, if PROMIPYME ever becomes a reality, FondoMicro will be undercut, as NGOs will opt to access its subsidized resources in lieu of those of FM, as they did during the early 1990s when the IDB offered 1%, 40 year loans. The PROMIPYME program managers anticipated that FondoMicro would continue to provide technical assistance to the program's borrowers, demonstrating an unawareness of the pernicious impact of subsidized interest rates on NGOs. The program would also have reduce the financial strength of the Banco de Reservas, since as designed the Bank was likely to suffer loan default rates in excess of its interest earnings. If the MSBD project were being designed today, the existence of the PROMIPYME project would have been grounds for project rejection by USAID.

Recommendation:

1. USAID should work with other donors to assure that the GODR is fully aware of the potential negative effects of the proposed PROMIPYME program.

C. Donor involvement in the SME sector

Questions: To what extent do external funds from the IDB, EU, World Bank, Interamerican Foundation and other donors complement or conflict with the institutional development of microenterprise credit NGOs? Is there effective donor coordination?

Findings:

1. Early in program implementation, the IDB undercut the project's viability by offering loans directly to SME lending NGOs at 1% interest, for 40 years with a 10 year grace period. The program was designed to help new and struggling NGOs, and therefore any NGO that was strong enough to qualify for a line of credit with FondoMicro was disqualified from the program. Several NGOs that were assumed to be program participants during project design withdrew their applications as a result of the IDB program provisions. The IDB no longer offers this direct financing to NGOs.
2. The Interamerican Foundation (known by its Spanish acronym FIA) decided to forgo early plans to provide direct assistance to microenterprise NGOs and instead decided to channel assistance to these organizations through FondoMicro. In total FIA has provided RD\$1,155,696 (US\$82,550) to FondoMicro. This has assured a close complementarity of program activities, and FIA plans to continue and if possible expand this relationship.
3. The Multilateral Investment Fund, associated with the IDB, has played a key role in support of the creation of the Banco de la Pequeña Empresa, and will be one of the Bank's shareholders during its first ten years of operation.
4. The EU and other bilateral donors continue to provide important support directly to selected primary level SME lending NGOs, and have tended to ignore FondoMicro as a second tier institution designed to serve as a one stop center for this type of assistance.
5. The SME financing NGOs remain highly dependent on donor financing of their capital requirements, which undercuts the MSBD projects goal of making FondoMicro a viable second tier organization channeling private resources to the sector.

6. Donor coordination mechanisms appear informal and of limited impact.

Conclusion:

1. As noted in the mid-term evaluation, the anticipated role for FondoMicro as a clearing house for donor assistance to the NGO sector has failed to materialize.

D. FondoMicro role in policy advocacy

Question: To what extent has and should FondoMicro play an advocacy/leadership role for the needs of the SME sector before the GODR, general public, and other donors?

Findings:

1. FondoMicro as an organization has played a very limited direct advocacy role for the sector. Particularly during the past several years, when FM actively negotiated with the GODR its approval for the creation of the Banco de la Pequeña Empresa, FondoMicro was reluctant to confront the GODR on other issues.
2. Although it has had limited direct involvement in advocating policy modifications of concern to SMEs, the quality of research sponsored by FondoMicro (with USAID funds) has created a wealth of published information on the status and constraints of the sector. These publications have stimulated national debate, and have provided effective material to those who are less constrained to undertake active advocacy.

Conclusion:

1. To the extent that FondoMicro's primary function is financial intermediation, public advocacy as an institution could be counterproductive, as it would be for any financial institution. However, through its research program, FondoMicro has succeeded in bringing to the attention of decision makers issues that are of concern to the sector.

E. Relationship to other programs

Question: To the extent that democratization of credit is limited by the institutional capacity of credit delivery institutions (rather than availability of credit) and the lack of other SME strengthening services (i.e. technical assistance, training), what has and should be FondoMicro's relationship with other such programs? Determine if

there are other agencies or organizations willing to service any additional technical assistance and training required by FondoMicro's existing and prospective clientele.

Findings:

1. The SME financing NGOs that have received technical assistance and training from FondoMicro were uniformly positive about the quality, value and impact of this assistance. In several situations, it was apparent that the financial and operational turnaround of NGOs (and in fact their very survival) was directly attributable to the FondoMicro technical assistance. In some cases, however, it appeared that the FondoMicro advisors were being treated as additional (free) program staff by NGO management. No other source of such assistance was identified during the interviews with the NGOs.
2. USAID has recently started a new project that supports provision of training to micro entrepreneurs by the Instituto Tecnológico Dominicano university (INTEC) to improve their business practices. The program will also provide assistance to some NGOs to improve their management practices. This program does not have the potential to replace technical assistance from FondoMicro, however, as it will not provide the level of intense assistance required to move NGOs from their present condition up to a level to qualify for a FondoMicro line of credit or a commercial bank loan.

Conclusion:

1. Continued provision of some level of technical assistance and training support is necessary for the viability and future growth of SME lending NGOs. Provision of this assistance should be based on at least partial cost recovery planning, however.

IV. Project Effectiveness

A. Achievement of project objectives

Questions: What progress will have been made by the end of the project towards the achievement of the stated project objectives (both in quantitative and qualitative terms)? Are the project achievements to date sustainable?

Findings:

1. The following chart describes the targets for end of project status as modified after the mid-term review, and status as of 12/31/96:

Table 1
End of Project Status Indicators
Mid-term Evaluation Modified Levels versus Actual Levels

Target	Modified objectives	12/31/96
Goal		
Productive, gainful employment in ISME sector, increased level over natural growth	26,000	No data available.
Purpose		
1. FM operational self-sufficiency	Achieve by 6/97	Achieved
2. Client base, each utilizing sound credit practices	12 NGOs	7 NGOs (5 actively using credit)
3. FM total outstanding loan portfolio	\$12,000,000	\$2,178,534
4. FM generating sufficient income from credit to cover all program costs.	Achieve by 6/97	Not achieved. See section V.
5. FM meets obligations in full and on time	Achieve by 6/97	Achieved.
6. ISMEs with reliable credit access	36,000	4,524
7. Banks providing credit to FM	2	0

2. As can be seen in the above chart, there has been a significant short-fall in the anticipated level of end of project indicators. The withdrawal of ADEMI from participation in the program, when at the time it represented over three quarters of the FondoMicro outstanding loans, severely reduced FondoMicro's credit program. FondoMicro has identified fewer qualified NGOs than planned for the project, and average size and growth of those NGOs that participate in the program has been smaller and slower than

planned. The cost benefit implications of this short-fall, and the impact on FondoMicro self-sufficiency, will be discussed in Section V.

3. The sustainability of program achievements to date is uncertain. As will be described in Section V, several of the five NGOs that presently manage FondoMicro credit resources do not generate sufficient income to cover their full costs (if an appropriate opportunity cost is assigned to their resources). In addition, it appears that loan loss reserves in these institutions are inadequate. This implies a need for ongoing technical assistance from FondoMicro, but it is also not clear that FondoMicro will have the resources, after the USAID project terminates, to support a technical assistance program of the scope it has had in the past. In the absence of on-going technical assistance, the evaluators do not believe that all of the NGO organizations that presently qualify for FondoMicro lines of credit will continue to do so, nor will other NGOs be brought up to the required level to receive new lines of credit. The evaluators conclude that the present level of end of project achievements is not sustainable without some level of continued technical assistance.
4. No data is collected from the participating NGOs on the number of new jobs created as a result of the program. FondoMicro research data on the sector, and anecdotal information based on the evaluators visits, substantiate that significant employment is being created, particularly in NGOs involved in manufacturing activities. The anticipated combined total employment creation is likely considerably below the target figure, however, as the volume of loan activity has been much lower than planned.

Conclusion:

1. FondoMicro will fall well short of expectations for most end of project status indicators, and it appears that the existing achievements may not be sustainable. The end of status indicators were designed to measure the outreach of the program, and the program is not attaining the large, broad audience of small and micro businesses that was the target of the program.

B. Contribution to USAID strategic objective

Question: How does the project fit in with USAID/Dominican Republic's overall program and, specifically, how has the project contributed to the Mission's strategic objective of increased economic opportunities for the Dominican majority?

Findings and conclusion:

1. The MSBD project was designed to be a key element in the USAID/DR program to promote increased economic opportunities for the Dominican majority. By creating a sustainable source of funding serving a significant percentage of the small and micro businesses in the Dominican Republic, USAID intended to make an important contribution to this goal. Unfortunately, the program has had far less impact than planned, and the contribution toward the program goal is not commensurate with the level of resources expended.

C. Targeting on constraints to SME development

Questions: Has the project correctly identified the constraints to improving the managerial and organizational capabilities of Dominican NGOs with credit programs for micro and small enterprises? Taking into account existing market constraints, has the project as currently designed correctly assessed the absorptive capacity of those NGOs?

Findings:

These are critically important questions, but ones that are difficult for the evaluators to answer given the short time available for this evaluation. To do so in a truly objective manner, the evaluators would need to spend much more time interviewing and observing a wide variety of NGOs in the Dominican Republic. Based on the contacts made, the following are our best assessment of the situation:

1. FondoMicro has identified the principal constraints to NGO development and has a clear and technically sound set of criteria that the NGOs must meet in order to qualify for a line of credit. FondoMicro has also developed an appropriate technical assistance service that has been effective in assisting several of the NGOs to meet the credit criteria. However, FondoMicro is not a regulatory institution, and its ability to influence the NGOs depends solely on the persuasiveness of its advisors and the threat of denial of credit resources. As there are often other sources of credit resources available to the NGOs from other donor organizations, the threat of denial of credit by FondoMicro is often not an effective leverage tool. And as the technical requirements often represent unpleasant medicine (i.e. raising interest rates, improving management personnel, getting tough on loan recoveries), persuasion alone has at times proven an inadequate tool.
2. A second constraint to improving the managerial and organizational capabilities of the NGOs is the provision of Dominican law that prohibits these organizations (unless they are savings and loan cooperatives or similar organizations) from accepting savings deposits. The inability to

capture local resources limits the range of financial services the NGOs can offer, and denies them access to financial intermediation income. They are dependent on donor capital, unless they accumulate sufficient capital (through donor contributions to capital) to attract private bank lending. FondoMicro was designed to serve as a bridge to private bank financing, but as will be described in section V, the evaluators do not consider this a viable role. If the NGOs did receive deposits from the public, they would also have to be subject to some form of regulatory supervision, which would serve to overcome the lack of an enforcement tool described in point 1 above.

3. There are other NGOs in the Dominican Republic that provide loans to micro and small businesses that are not presently involved in the program. FondoMicro indicates that they have reviewed the status of every such organization that has been identified, and have prepared detailed diagnoses of 19 of them, and they do not believe that there are organizations that they have failed to identify that are capable, even with intensive technical assistance, of achieving the required level of creditworthiness. Others argue that such organizations do exist. Specifically, the evaluators were told by various individuals that FondoMicro has shown a bias against cooperatives in selecting potential clients. FondoMicro has provided some support to these organizations through their association, AIRAC, and has directly assisted two of its organizations. It is not alleged that cooperatives exist that presently qualify for lines of credit for micro enterprise lending, but that if FondoMicro were to have dedicated the same level of effort in assisting those cooperatives with potential to qualify as FM has dedicated to NGOs, then a greater number of cooperatives would be clients today.
4. The evaluators were troubled by the fact that, if there are a number of potentially creditworthy SME lending NGOs that FondoMicro has excluded from the program, why have these organizations not complained publicly, or even privately directly to USAID? Certainly any institution working in this sector would be aware, after seven years, that FondoMicro exists and has donor funds available to assist the sector.

Conclusions:

1. The project lacked effective leverage to assure that potential NGO participants in the program would in fact adopt measures required to improve their managerial and organizational capabilities, since many NGOs had alternative sources of credit.
2. Inability to capture savings deposits is an organizational constraint to development of the NGOs.

3. It is unlikely that there are many other NGOs in the Dominican Republic qualified to become program participants, even with the same amount of intensive assistance FondoMicro provided to some of its current clients.

D. NGO use of FondoMicro technical assistance

Question: To what degree have the participating NGOs implemented the recommendations provided by FondoMicro to improve their organizational quality? What do these NGOs view as the most important products of the project?

Findings:

1. The quality of the technical support provided by FondoMicro was universally praised by the NGOs interviewed, even though some felt that FondoMicro's selection criteria for access to a line of credit was unreasonable strict for institutions serving the SME sector in the Dominican Republic. The majority of the NGOs reported that they did in fact implement FondoMicro's recommendations. FondoMicro believes that many of their technical recommendations were implemented, although in some cases the NGOs failed to address underlying managerial constraints, especially concerning portfolio management. The more common explanation for failure of an NGO to participate in the credit program, however, was the fact that they were able to access less expensive resources elsewhere.
2. The NGOs responded that the technical assistance was the most important product received from FondoMicro. They lump in with the technical assistance the donation of computers (USAID funded) and installation of accounting and portfolio management software. The combination of this software with the technical assistance to use it was an extremely important contribution to NGO management.

Specific examples of the impact of FondoMicro technical assistance include: significant improvement in control of delinquent accounts in Cooperative La Candelaria; preparation of timely accounting reports for directors at FONDESA; training of credit agents at ADEPE; and support for creation of branch office operations in Asociación Tu, Mujer.

4. The evaluators are concerned, as will be discussed below, that the level of unrecoverable loan reserves in the participating NGOs is inadequate. It appears that this is an example where the NGOs failed to implement FondoMicro's advice, and FondoMicro lacked the leverage to make it happen.

Conclusion:

1. The participating NGOs implemented most of the technical recommendations provided by FM advisors, although several failed to adopt important recommendations concerning administrative and portfolio management policies and procedures.

E. NGO credit performance

Question: Have the credit management capabilities of NGOs serving the SME sector improved due to project activities? What are their loan default rates? Have they taken into account potential negative environmental impacts in their loan approvals?

Findings:

1. As noted above, the credit management capabilities of NGOs receiving FondoMicro technical assistance improved significantly as a result of that assistance. The five NGOs with active lines of credit (two others recently had lines of credit approved but had not accessed the funds as of December, 1996) demonstrate effective and efficient portfolio approval and financial control procedures. Each of the NGO executive directors/managers was able to respond immediately to questions concerning the portfolio status, delinquency rates, etc.
2. The evaluators were concerned that the ratio of the number of small and micro enterprise borrowers in the participating NGOs to credit supervisor was high, so that the effective supervision provided to the borrowers is minimal. For example, in ADEPE, the portfolio, which at the end of December 1996 was RD\$19 million in 1,188 loans, is managed by six credit agents (recently increased from five). ADEPE plans a significant expansion in its loan portfolio in 1997, but at this point does not plan further expansion of the number of agents. ADEPE indicated that the agents try to visit each borrower once a month, but to do so each agent would need to visit 9 existing borrowers per work day, plus assist and evaluate potential new borrowers. It is unlikely that this allows effective supervision of the loan portfolios.
3. Many of the NGOs indicated that they provide training courses to help their borrowers to manage more efficiently, in addition to technical advice provided by the NGO credit agents. Few of the eighteen micro entrepreneurs visited by the evaluators had actually attended a training program, however. Most indicated that they would like to do so, but do not

have the time available to leave their businesses at the time training courses are held.

4. The evaluators did not have access to information on actual loan default rates. The arrears on loans made with funds from the FondoMicro lines of credit in the five NGOs that were using these lines in 1996 (as well as funds generated by this portfolio in the NGOs which have been relent by them) varied from 3.9% to 8.9%, with a weighted average of 5.9% (the evaluators did not review information on the arrears of the overall loan portfolios of these NGOs). While this percentage is not high for development lending programs, delinquency rates tend to be lower for very short-term, micro enterprise lending.
5. Of greater concern, however, is that the reserves for unrecoverable loans appear to be inadequate in most of the NGOs. The total unrecoverable loan reserve for the FondoMicro lines of credit in the five NGOs is estimated to be RD\$492,340³. Based on loan aging reports submitted to FondoMicro, the total arrears over 30 days in these five NGOs totals RD\$2,024,646, and of this the portion over 120 days in arrears is RD\$949,130. A formula recommended for Micro enterprise lending NGOs is to set aside, each month, funds sufficient to have a reserve equal to 10% of loans 0-30 days in arrears, 25% of arrears 31-60 days, 50% for 61-90 days, 75% for 91-120 days, and 100% for loans over 120 days. Applying this formula to the 5 NGOs with FondoMicro lines of credit would require an unrecoverable loan reserve of RD\$1,466,591, or three times the present reserve level.
5. The evaluators asked each of the NGOs if they considered the environmental implications of the Micro enterprise activities they were funding and if they provide any technical assistance on these issues to the borrowers. While they indicated that they would not loan funds to an activity they considered environmentally hazardous, only ADEPE (which also implements a USAID funded natural resource management project) indicated that they provide orientation on these issues to the borrowers.

Conclusions:

1. In general, the credit programs in the five NGOs with active lines of credit from FondoMicro appear to be well managed. However, loan supervision in

³Calculated by dividing, for each NGO, the average amount of the FM line of credit in 1996 by the average outstanding loan amount and multiplying this times the total reserve for uncollectible loans, then summing the results for each of the 5 NGOs.

some cases appears insufficient, particularly in light of rapidly expanding portfolios.

2. The reserves for uncollectible loans appear inadequate in most of the five NGOs with active lines of credit from FondoMicro, and in combination are only about one third of the appropriate level.

F. FondoMicro managerial performance

Question: What has been FondoMicro's managerial performance? Are the administrative, organizational, and programmatic capabilities of FondoMicro adequate? What areas need further improvement?

Findings:

1. FondoMicro systems appear to be excellent to assure proper management of its programs. File records for each of the NGOs with lines of credit contain regular reports on status of the loans, supervision visits, recommendations made and follow up actions, etc. Similar, though of course less complete, records exist for NGOs that only receive technical assistance. FondoMicro's computer system is modern and well managed, and office equipment and facilities appear well maintained.
2. The problem, as will be discussed further in Section V, is that the FondoMicro management systems cost too much for the institution's level of activity. Management of relatively small lines of credit to five (now seven) NGOs does not require the level or quality of staff that FondoMicro now employs.
3. As was discussed in section IV.C. above, there is an issue as to whether FondoMicro made sufficient effort to identify all possible program participants, and whether it sought the most effective programmatic approach to try to bring these organizations up to a stage of creditworthiness so that they could participate in the program. The evaluators could not conduct sufficient interviews to fully answer this question during the limited time available for the evaluation. What can be clearly stated is that after seven years of effort, only six small and one medium sized NGOs are participating in the program, and that does not appear to justify the level of resources dedicated to this effort, nor the FondoMicro management structure and costs.
4. FondoMicro attempted to communicate to USAID early in the project its concern that insufficient credit-worthy NGOs existed that could participate

in the program. When USAID disagreed, it appears that FondoMicro decided to pursue alternative courses of action without openly and transparently sharing its strategic thinking with the USAID Mission. At this point, both institutions have lost confidence in the openness of communications with the other, and this situation is detrimental both to FondoMicro and to USAID. For example, USAID believes that the location of the building occupied by FM and BPE in an exclusive, high rent zone will make it unlikely that the institution will serve micro businesses. FM argues that the location was selected for banking credibility, and that clients will be reached through branches. The failure of FM management to adequately and openly communicate its strategic vision for reaching the micro enterprise sector has contributed to the deterioration in the relationship.

Conclusion:

1. The FondoMicro management systems appear modern and conscientiously implemented. They appear too staff intensive and costly for the level of program activity, however.
2. FondoMicro either lacks a clear strategic vision of where it is headed, or it has failed to adequately share that vision with its partners and clients.

G. Future FondoMicro service structure

Questions: What is the optimum mix of credit, technical assistance, training, and research activities that FondoMicro should carry out given FondoMicro income levels after USAID assistance terminates? What would be the impact if FondoMicro were allowed to convert the STP debt into an endowment fund? What are different optional scenarios?

Findings:

1. The following chart presents key income and expense information data for 1996 for FondoMicro (all figures in RD\$):

Table 2
FondoMicro 1996 Income and Expenses
(RD\$)

Interest income on loans	4,851,147	
Less interest/commissions paid	<u>-2,413,420</u>	
Net income from loans	2,437,727	
Investment and other income	<u>+7,497,134</u>	
Income from operations		9,934,861
Operating expenses		<u>-5,521,817</u>
Net income from operations		4,413,044
Donations and other income	5,796,842	
Tech. assist. and research exp.	<u>-7,192,976</u>	
Uncovered TA and research exp		<u>-1,396,134</u>
Income over expenses		<u>3,016,910</u>

FondoMicro's operating expenses shown above actually include some overhead costs related to the technical assistance, training, and research programs, such as a percentage of the executive directors time, utilities, etc., but in the short-term these are considered fixed cost items, as elimination of the non-credit programs would not immediately reduce these costs. FondoMicro's operating costs do not include rent of office space, as FM purchased its building with resources provided by USAID.

2. This chart demonstrates that the largest source of income for FondoMicro is interest on investments, which were made with capital generated by repayment of loans to NGOs that were not reinvested in new loans (principally funds returned in 1995 to FondoMicro from ADEMI). Interest income from FondoMicro's loan portfolio does not cover operating expenses, much less the technical assistance, training, and research programs. If donations were not provided in 1996, FondoMicro would have had to reduce costs, or have suffered a net loss, equal to RD\$2,731,182, equivalent to 38% of the technical assistance, training and research budget, or 49% of operating expenses.
3. With the termination of USAID support, FondoMicro must face several important strategic choices. FondoMicro's 1996 operating expenses (not counting technical assistance and research expenses) equal 20% of its average outstanding loan portfolio, even without considering return on

capital or creation of a reserve for uncollectible loans. This is a very high cost operation, and is only sustainable due to donations and investment income.

A key factor in weighing the following alternatives is FondoMicro's relationship to the new Banco de la Pequeña Empresa. The agreement between FondoMicro and the IDB concerning the IDB's agreement to purchase shares in the BPE requires FondoMicro after two years to "transfer its lending activity to the BPE. FondoMicro indicates that this means that it must not exceed whatever its loan portfolio size is at that point in time, rather than that it should be out of the credit business altogether. The local IDB Micro enterprise officer disagrees, indicating that the latter definition prevails. FondoMicro assured the evaluators that their definition has been agreed to by key IDB officials in Washington and that it will soon be documented in a side agreement. FondoMicro anticipates that in two years its portfolio will grow to about RD\$50 million, and that its intent is to maintain that level of portfolio lending to micro enterprises.

The following optional scenarios appear worthy of consideration at this time.

a. FondoMicro maintains micro enterprise lending through NGOs: In keeping with FM's understanding of its agreement with the IDB, FondoMicro would maintain a portfolio of loans to NGOs that make loans to micro enterprises, at a slightly below market interest rate (80% of prime) in order to assist them to reach a stage of development where they can graduate to bank lending (probably the BPE). FondoMicro could undertake a renewed effort to develop a larger group of NGO clients, and to help all of its clients to further expand their lending operations. Under this scenario, the research program would be maintained at a much reduced level, administrative costs would be reduced wherever possible, and the technical assistance program would be focused on this objective.

b. Reduce administrative costs to a minimum and focus attention on assuring that the new Banco de la Pequeña Empresa also serves micro businesses: The FondoMicro management has indicated that, after seven years of effort, they believe that there are few if any additional viable NGOs that can qualify for FondoMicro lines of credit, and in fact they raise serious questions about the viability of the NGO model for Micro enterprise lending. If this is correct, then FondoMicro should reduce its costs to the minimum necessary to manage its existing loan portfolio, and seek at the appropriate time to transfer this portfolio to another institution, probably the BPE. FondoMicro could then focus its investment income on technical assistance to a variety of innovative lending institutions and to the SME sector in

general, and on its research program, in effect as an endowed contribution to the sector. The FondoMicro Board of Directors and Management could continue to pursue the program objectives through their investment in the Banco de la Pequeña Empresa, by attempting to provide collateral services to increase access by micro businesses to the Bank. This scenario, in effect, would recognize that FondoMicro had failed to become a second tier source of support for SME lending NGOs.

c. Close FondoMicro and distribute its patrimony among its NGO clients, or to other appropriate institutions that support the SME sector. If the original reason for creation of FondoMicro was to establish a second tier lending organizations serving the SME sector, and if this has been proven unworkable, then consideration should be given to closing it, as would happen if it were a for-profit private sector institution. Frequently, when public sector and non-governmental institutions attempt to find a reason to exist after the reason for their creation is no longer valid, the end product is not something that any of the actors would have found compelling of their support in the beginning. Any plan for restructuring or redirecting FondoMicro should also include a discussion as to whether its continued existence warrants the time of the members of its Board, and its operational costs.

4. At this point the evaluators do not see a justification for converting the STP loan into an endowment for FondoMicro unless a strong programmatic justification can be developed as a result of consideration of the scenarios outlined in point 3 above. The justification would have to demonstrate clearly how creation of the endowment would specifically help FM to assure continued attention to the needs of micro enterprises. USAID has also insisted that FM obtain one to one matching funds from other sources as has been the case with other endowments, but FM has indicated that it could not meet this requirement. FM has also stated that if required to repay the STP funds, it would reduce the size of its loan activity rather than reducing its investments. This implies that FM has already selected option 2 above.

Conclusion:

1. At this point, the cost of maintaining FondoMicro as a second tier lending institution exceeds the value of its role.
2. FondoMicro should prepare a targeted strategic plan that demonstrates how it intends to provide assistance in the future for the micro enterprise sector, and share this plan with its supporters and clients.

Recommendation:

1. Until FondoMicro prepares a defensible strategic plan that demonstrates how its activities will benefit the micro enterprise sector, USAID should withhold support for conversion of the STP loan resources to an endowment.

H. Impact of the Banco de la Pequeña Empresa

Questions: What is the importance of FondoMicro's Small Business Bank initiative and does it enhance/detract from support for micro enterprises? Can the existence of the new Small Business Bank be expected to affect FondoMicro's performance?

Findings:

1. A strong, positive impact of the creation of the Banco de la Pequeña Empresa (BPE) is that a formal financial institution designed to serve this target group now exists that will be capable of mobilizing domestic Dominican resources in support of the sector. As donor resources are declining, the only possible sources of future capital to support continued development and growth of small and micro businesses are either the Dominican government funds or domestic savings. Government financing programs have been shown in many countries to be bureaucratic and subject to influences unrelated to the efficient allocation of capital to those businesses with the highest marginal returns. Another option could have been to facilitate increased lending to this sector by existing commercial banks, but USAID and FondoMicro opted for creation of a new bank as an option more likely to achieve the objective.
2. FondoMicro indicated to USAID when seeking support for creation of the BPE, that initially the BPE would only make direct loans to small businesses, rather than the micro enterprise sub-sector. Its proposal contemplated reaching the micro sub-sector by making loans to NGOs serving micro businesses, but since these organizations have found FondoMicro's interest rates high, it is likely that they will be reluctant at first to pay the higher, commercial rates required by the BPE. The BPE was to limit, at least initially, its loans to micro businesses, to avoid creating competition for the SME lending NGOs supported by FondoMicro. According to FM management, the BPE is in fact making direct loans to individual micro enterprises. Also, since the FM agreement with the IDB commits FM to transfer some or all of its potential lending program to the BPE within two years, it will be important for FM to clarify how and when the BPE will serve this sector, including its strategy for establishing a presence in areas of high micro-enterprise activity.

3. The impact of the existence of the BPE on FondoMicro will depend on which of the scenarios for the future outlined in section G above is adopted. The BPE, sooner or later, will probably replace FondoMicro as a source of funds for the sector.
4. Attention needs to be given to assure that BPE resources reach the micro business sector, either through SME lending NGOs or directly.

Conclusion:

1. Creation of the Banco de la Pequeña Empresa is a positive development as it enables mobilization of domestic Dominican financial resources in support of at least the small business sector, and hopefully the micro business sector.

Recommendation:

1. FondoMicro should develop a strategic plan to maximize access by micro entrepreneurs to the resources of the Banco de la Pequeña Empresa.

V. Benefit/Cost of Program

A. Comparison of actual project inputs with planned

Question: Has the project been funded in accordance with the expected schedule for counterpart contributions?

Findings:

1. The following chart shows the level of planned versus actual inputs to the MSBD project:

Table 3
Planned versus Actual Project Inputs

Input Source	Planned	Actual 3/31/97	Difference
USAID	\$7,250,000	\$7,011,334	\$-238,666
<i>Counterpart</i>			
GODR	2,000,000	1,867,546	-132,454
FondoMicro	4,391,000	2,323,254	-2,067,746
Bank loans	14,000,000	0	-14,000,000
Other donors	10,500,000	82,550	-10,417,450
Total counterpart	30,891,000	4,273,350	-26,617,650
Total project	\$38,141,000	\$11,284,684	\$26,856,316

2. The mid-term evaluation noted that as the number of viable SME lending NGOs was likely to be less than planned, there was no need for FondoMicro to attempt to access commercial bank financing. It also noted that other donors had not agreed with USAID's assumption that a second tier lender was needed to help them channel their resources to these NGOs. Only the USG's InterAmerican Foundation has found FondoMicro to be a useful channel for its assistance.
3. Rather than sourcing funds from private banks in order to increase the flow of funds to small and micro enterprises, FondoMicro has invested RD\$42,903,315 in bank certificates of deposit, and RD\$17,892,000 in shares of the Banco de la Pequeña Empresa, which when combined total the equivalent of \$4,343,000.

Conclusion:

1. The planned counterpart contribution from loans from private banks was not made, as these resources were not required due to the reduced level of credit activities. Counterpart from other donors was extremely small, as these institutions decided to use other channels for funds provided to the sector. GODR and FondoMicro counterpart contributions to the project also fell short of planned levels. Total counterpart for the project equaled 37% of total project costs.

B. FondoMicro loan portfolio

Question: What is FondoMicro's loan portfolio performance, quality and yield?

Findings:

1. The FondoMicro outstanding loan portfolio grew rapidly in the early years of the project, but suffered a dramatic decline in 1995 with the withdrawal of ADEMI from the program. The following table shows the end of year amount of FondoMicro's outstanding loan portfolio since initiation:

Table 4
FondoMicro Outstanding Loan Portfolio
(RD\$ million, end of calendar year)

1991	1992	1993	1994	1995	1996
10.0	32.3	57.3	71.1	28.7	33.5

2. There were no payment arrears between the NGO recipients of FondoMicro's lines of credit and FondoMicro at the end of 1996. As was noted in section IV.E., the payment arrears for the NGO portfolios totaled 5.9% as of December, 1996, down from 13% in June, 1996 (some of the decline corresponds to non-renewal of credit to a client that proved unable to control arrears). This level of the arrears is not a cause of serious concern, but the loan loss reserves in the NGOs appear insufficient given the fact that a large portion of the arrearage is over 120 days old.
3. The yield on FondoMicro's average outstanding loan portfolio during 1996 was 17.8%, in keeping with its policy of lending at 80% of the prime interest rate, which averaged around 20/21% in 1996. As FondoMicro's source of funds is either donations from USAID, or retained earnings from prior fiscal years, its cost of capital is zero. In section V.D., an opportunity cost will be assigned to its capital in an economic cost benefit analysis.

Conclusion:

1. The quality of the FondoMicro portfolio appears sound, and the yield is in keeping with the agreed interest rate policy.

C. Financial performance of FondoMicro

Questions: What has been the overall financial performance of FondoMicro? What efforts are being made by FondoMicro to reduce bottlenecks to channeling more credit to SMEs? For funds that FondoMicro's NGO clients could not absorb, how effective were efforts to invest those resources in benefit to the SMEs?

Findings:

1. The FondoMicro management has exercised conservative custody of the institution's patrimony. FondoMicro has not suffered an operating year loss or had to write off a single loan as bad debt in its six years of existence. The \$4.4 million it has received as a donation from USAID for credit operations has now generated a total patrimony of \$5.5 million.
2. Judged against the project goal and purpose, however, FondoMicro has failed to develop the planned level of loans to SME lending NGOs, and instead is living off of investment earnings. FondoMicro attributes this shortfall to inherent weaknesses in the organizations, and as FondoMicro is convinced that it will not be able to identify additional viable NGO clients to serve as channels for small and micro enterprise loans, it has focused its energies on the creation of the Banco de la Pequeña Empresa. FondoMicro believes that this institution will be a more efficient and effective channel for future lending to the SME sector than have been the SME lending NGOs. Based on interviews, the evaluators believe that FondoMicro might have been able to develop additional potential clients, particularly among cooperative organizations, if intensive technical assistance had been given to these organizations (in coordination with AIRAC, as it has done in the past, but with greater intensity). However, the lack of public outcry by such organizations concerning failure of USAID funded FondoMicro to meet their needs causes the evaluators to believe that the number of such organizations is probably fairly small.

A number of individuals interviewed argued that in pursuing profit and compliance with prudential norms of the banking system, the BPE will rationally select the best borrowers, which will place a strong bias toward loans to the small and medium enterprises in the formal sector. This would violate the target group focus principal clearly stated in the USAID policy

guidance cited in Section II.C. FondoMicro responds to this argument by stating that in fact they consider the micro enterprise sector to be potentially highly profitable for the BPE, since these borrowers are used to paying higher interest rates, and the Bank can use more efficient procedures to reach them.

FondoMicro clearly indicated to the USAID Mission early in the project that it believed that there were insufficient viable NGO clients to absorb all of the project resources. At that point, USAID indicated that it disagreed with this judgement, and requested that FondoMicro continue to attempt to identify such organizations. The mid-term evaluation agreed with FondoMicro's position, and the target for the number of NGO participants and the amount of loans was decreased at that time. However, the USAID mission never fully accepted this position, and the conflict between the perceptions of reality (and perhaps between the underlying objectives) of the two institutions was never fully resolved, and served to generate considerable tension and conflict.

3. FondoMicro recently signed agreements with three private banks to invest RD\$ 37.8 million in three and five year certificates of deposit, with the stipulation that the banks utilize the funds solely for loans to small and micro enterprises. This is an indirect means to reach the project's target group in the absence of sufficient viable NGOs to absorb all of the resources, while at the same time protecting the value of the resources. The interest rate on the CDS is slightly lower than the rate FondoMicro received previously on CDS that lacked this investment restriction, but FM had to agree to longer CD periods in order to get the Banks to agree to the arrangement.

Conclusion:

1. FondoMicro has managed its resources conservatively and succeeded not only in maintaining their value but also in increasing them. At the same time, FondoMicro has failed to channel the planned level of assistance to small and micro entrepreneurs through NGOs. The decision to use the Banco de la Pequeña Empresa for this purpose might skew resources away from informal micro businesses toward formal small and medium businesses, unless specific measures are taken to assure a focus on micro entrepreneurs.
2. USAID and FondoMicro failed to address adequately the lack of a common perception concerning the feasibility of the original project design after this disparity became apparent to both institutions.

Recommendation

1. In projects of this nature, USAID needs to clearly monitor the performance of the implementing institution, and if it appears that there is a lack of commonality of purpose or of understanding of project conditions, an intensive effort is required to resolve the issue. If this cannot be achieved, USAID should consider suspending or canceling the project.

D. Cost effectiveness of the project

Questions: Has the project been cost-effective? What has been the benefit/cost of the project, on a financial rate of return basis? Are the project contributions to SME development worth the cost? Has available funding been sufficient to carry out the project objectives?

Findings:

1. The mid-term evaluation estimated two different internal rates of return for the project, the first based on the total USAID investment in the project, and the second based only on USAID contributions to the credit program. Both calculations were based on projections of cash flows to the year 2,000, plus an estimate of the total loan portfolio as of that date. The first IRR was estimated to be 23% and the second 39%. At the time of the mid-term evaluation, ADEMI was still participating in the project and represented 83% of the total portfolio. Its withdrawal from the project, and FondoMicro's inability to find alternative organizations to absorb that portion of the portfolio, dramatically changed FondoMicro's cash flow from credit activities. Still, by investing its excess cash in certificates of deposit, FondoMicro has been able to maintain a positive cash flow.

The financial analysis included in Annex D estimates the internal rate of return of the project using three models. It should be noted that given the uncertainty concerning FondoMicro's future activities, the IRR analyses were all based on the 1990-1996 period only, without projections for future years. The first, Analysis A, is based on total USAID disbursements to FondoMicro for all project activities, including operating costs, technical assistance and research, etc. The second, Analysis B, is based solely on USAID contribution to credit activities, paralleling the mid-term evaluation analysis. Analysis C is based on all USAID contributions to FondoMicro except the costs of technical assistance, training, research, international travel, and computer equipment purchased for the NGOs. For each of these scenarios, two IRRs are calculated, the first based on actual expenditures and cash

flow, and the second discounting these amounts by the inflation factor after the project's first year. Table 5 shows the results of these various analyses:

Table 5
Internal Rate of Return (%)
USAID costs compared with FM cash flow and residual capital

	Analysis A Total project costs	Analysis B Credit costs only	Analysis C FondoMicro costs only
Without inflation factor discount	2.9	19.4	12.1
With inflation factor discount	-4.6	11.0	3.9

The evaluators consider Analysis C, discounted for inflation, to be the most appropriate, as it includes all USAID direct contributions to FondoMicro, while excluding costs incurred to subsidize NGO development or to add to the body of public knowledge concerning micro enterprises in the Dominican Republic.

2. The USAID policy guidance cited in section II.C., however, requires a different analysis. It notes that in order to evaluate the full financial sustainability of a microenterprise financing institution, the analysis should be based solely on its ability to generate income from its lending operation sufficient to cover the full long-term costs of providing those services. For that reason, a separate analysis is required which compares the income and commissions earned on the outstanding loan portfolio with the operational costs incurred in making those loans plus the cost of capital for the resources lent. In cases where resources being lent were received by the NGO through a donation or low interest loan, an opportunity cost equivalent to the market cost of capital should be applied to those resources. The intent is that USAID financing be used to expand outreach of the program, not subsidize it.

It is relatively easy, as was shown in Section IV.G., to isolate FondoMicro's income from its loan activity and the operational costs associated primarily with that activity⁴. It is much harder, however, to determine what is an

⁴As noted earlier, the operational costs include indirect costs of FondoMicro management time, accounting services, utilities, etc., dedicated to supporting the technical assistance, training and research activities, but these are at this point fixed costs that would not necessarily decline significantly in the short-term if these activities

appropriate opportunity cost to be applied to the capital being lent. As an NGO, FondoMicro is forbidden by law from accepting deposits from the public. Its only potential source of private capital is therefore loans from the private banking system. Given its large capital (accumulated donations and retained earnings) and its fixed assets, FondoMicro could qualify for private bank loans at the prime interest rate, currently about 20%. However, as FondoMicro lends funds at 80% of prime (currently just over 17%), it is obvious that FondoMicro would never have a positive return from its lending operations using this rate. Frankly, this calls into question the rationale for attempting to make FondoMicro a second tier lender in the first place.

The USAID guidance suggested options for alternative discount rates, and indicated that whichever had the highest rate should be used. The first was the interbank lending rate, which is currently about 15% in the Dominican Republic. The second is the rate of interest paid on 90 day certificates of deposit, which varies (depending on the size of the deposit) between 15% and 17.5%. The third is the annual rate of inflation, which in 1996 was about 6%. The evaluators decided to carry out the financial analysis using a discount rate of 15%. The following table shows the results of this analysis:

Table 6
Long-term Sustainability Analysis - FondoMicro
(RD\$)

Average loan portfolio	27,265,000
Interest/commission income from loans	4,851,147
Adjusted financial expense	4,089,825
Administrative expenses	5,698,348
Total expenses	9,788,173
Ratio administrative expenses/loans	0.21
Ratio interest income/total expenses	0.50

Using a 15% opportunity cost for capital, FondoMicro clearly does not meet the criteria for long-term financial sustainability. In fact, to reach equilibrium (income/expense ration of 1.00), FondoMicro would need to manage a

were eliminated. Also, these costs are offset by the fact that the operating costs of FondoMicro contain no rent charges, since it purchased its building with USAID grant funds. For the purpose of this analysis the total operational costs are considered an appropriate estimate of the cost of managing the credit program.

portfolio of RD\$205,000,000, without increasing its administrative expense. It should be noted that the administrative expenses are very high for the size of the portfolio.

A separate analysis was carried out of FondoMicro as a "subsidized" institution, i.e. adding interest income from its investments to its income from loan activities. Using a 15% opportunity cost for capital in its loan portfolio plus its domestic and foreign certificates of deposit yield a ratio of interest income to adjusted total expenses of 0.76, which also falls short of full sustainability.

3. Finally, the evaluators decided to attempt a third approach at assessing the long-term sustainability of the project, by analyzing the sustainability of the entire system, i.e. treating FondoMicro and its five borrowing NGOs like a corporate structure with subsidiaries, so that the cost of loans from FondoMicro to the NGOs is treated like an intra-company transfer. Under this model, the interest income is that received from the final consumer, i.e. by the five NGOs from the micro entrepreneurs (for FondoMicro provided resources only). The administrative costs are those of the entire system required to manage the FondoMicro portfolio, i.e. FondoMicro's administrative expenses and the portion of the five NGO's administrative expenses that correspond to this portion of their portfolio. The analysis was carried out at two different opportunity costs, the first using 15% as in 2 above, and the second using the 20% prime rate, which is closer to the true long-term cost of capital for the system. The following table presents the results of these two analyses (see Annex D for greater detail):

Table 7
Long-term Sustainability Analysis - FondoMicro and Participating NGOs
(RD\$)

	15% opportunity cost	20% opportunity cost
Average loan portfolio	27,265,500	27,265,500
Interest/commission income from loans	9,218,748	9,218,748
Adjusted financial expense	4,089,825	5,453,100
Administrative expenses	12,436,331	12,436,331
Total expenses	16,526,156	17,889,431
Ratio administrative expenses/loans	0.46	0.46
Ratio interest income/total expenses	0.56	0.52

This chart shows that the entire system of FondoMicro and the five NGOs providing loans to the SME sector is not sustainable on a long-term basis. To make the system sustainable, total loan volume (keeping administrative expenses constant) would have to be RD\$66 million at a 15% opportunity cost, and RD\$88 million at 20% opportunity cost. This is more feasible than the RD\$205 million required to make FondoMicro alone sustainable, but it is still more than the five organizations could absorb in the near term. Alternatively, the total system could become self sustaining by reducing the combined administrative expenses, but these would need to decrease by 54%. Even though the evaluators consider the costs of FondoMicro and the NGOs to be too high, this level of reduction is unrealistic. The administrative expenses as a percent of the loan portfolio vary from 13% for the Cooperativa Empresarial to 27% for ADOPEM.

4. The analysis carried out in sections 1, 2, and 3 above exclude the costs incurred by FondoMicro (and subsidized by USAID) for provision of technical assistance, training, and research support for the sector. At this point, there is no attempt at cost recovery for these activities. While they certainly produce a financial benefit for the NGOs, FondoMicro does not believe that it can obtain any meaningful payment for the services.

Conclusion:

1. The project is not cost effective and is not sustainable on a long-term basis. In effect, FondoMicro is only viable at its present cost structure as a channel to lend free capital at near commercial rates to the NGOs, and even then a portion of its administrative costs must be subsidized from investment income (also using donated capital). It is unrealistic to assume that FondoMicro could obtain borrowed private bank capital and lend it at rates adequate to cover its costs, as this would result in very high priced loans, and the client NGOs have other potential sources of financing.

E. Cost comparison with possible alternative approaches

Questions: Are the efforts of the project being produced at an acceptable cost compared to alternative approaches to accomplish the same objectives? In the evaluator's judgement, is there another more cost-effective alternative?

Findings:

1. The MSBD project has sought to do two things: a) provide technical assistance to improve the administration and portfolio management of SME lending NGOs, and b) establish a sustainable financial mechanism for

meeting credit needs of a large number of micro and small businesses. FondoMicro direct costs for provision of technical assistance appear reasonable, although they might have been provided with a lower level of overhead by an institution specializing in this service. Provision of loans to the NGOs could have been managed at a much lower cost through a trust account arrangement with a private bank, but this also would not have achieved long-term financial sustainability. The only real option to achieve long-term sustainability appears to be a structure like the Banco de la Pequeña Empresa or the savings and loan cooperatives, that are capable of mobilizing savings and benefiting from the full margin of financial intermediation.

Conclusion:

1. Alternative approaches to creation of a fully self-sustainable financial system serving the SME sector that directly mobilize domestic savings would have been more cost effective.

F. Direct benefits of the project

Questions: The evaluators must indicate what are the direct benefits resulting to date from the project, and include both quantitative and qualitative indicators of, and proxies for, assessing project-related performance.

Findings:

1. This is a very difficult task, since the project has not gathered information on a regular basis on program impact, and the time and resources available to the evaluators precluded broad surveying of micro entrepreneurs benefiting from the program, as would be required to fully complete this task. FondoMicro has demonstrated that microenterprise development brings two types of economic development. Growth of the very small, subsistence level micro enterprises (which represent 52% of the micro enterprises in the Dominican Republic according to FondoMicro surveys) leads to only about a 1% growth in employment in these firms, but the standard of living of the micro entrepreneurs and their families increase significantly. For the somewhat larger micro entrepreneurs, growth is quickly translated into increased employment. The evaluators attempted to gather statistics on employment generation from the seven NGOs participating in the credit program, but the information provided tended to be anecdotal. FondoMicro has at times attempted to estimate employment impact using a factor of jobs created per "x" amount of pesos lent, that ADEMI has calculated periodically. However, FondoMicro itself questions the validity of this approach.

2. The project paper noted that the cost of creating a job in the microenterprise sector is only RD\$1,000. Adjusting this figure for inflation since that date, the cost of creating a job in 1996 might have been as high as RD\$4,436. FondoMicro's average loan portfolio for 1996 of RD\$27,265,500 would therefore have created over 6,000 jobs in 1996 alone. This analysis is extremely tentative, however, and it would be very useful to attempt to gather primary data to measure the impact of loans on the sector at this time.

Conclusion:

1. Data on program impact was not systematically collected. Surveys of employment generation in the SME sector provide a reasonable basis to include that the program had a positive impact, though substantially below the planned level.

VI. Outputs

A. Achievement of planned outputs

Questions: The evaluators must determine in quantitative and qualitative terms whether or not the expected project status, conditions and outputs to date have been produced. Where an output has not been fully achieved, the evaluators must indicate the respective progress to date and give their opinion as to why such an output has not been achieved. The validity of the project paper concepts and analyses must also be assessed.

Findings:

1. The following are the quantitative outputs under the project against planned:

Table 8
Planned versus Actual Outputs

Output	Planned (as revised 9/95)	Actual
<i>Component 1 - Strengthening FondoMicro</i>		
a. FondoMicro offices fully established, equipped and functioning.	Complete within 6 months .	Completed within 6 months.
b. Administration systems and procedures developed and adopted.	Complete within 6 months.	Completed within 6 months.
c. Development of appropriate staff capability.	Staff appointed year 1	Staff appointed year 1
d. MIS fully developed, installed and functioning.	Complete by year 1	Completed by year 1
<i>Component 2 - Financial support program</i>		
Credit guidelines developed and adopted.	Complete within 6 m.	Completed within 6 m.
Loans made to NGOs - 1996	\$12,000,000/12 NGOs	\$3,473,800/7 NGOs
<i>Component 3 - CPM assistance to NGOs</i>		
a. "Diagnostics of NGO CPM capabilities conducted - cumulative to 1996.	21	19
b. CPM assistance program initiated and completed for different NGOs - cum. to 1996.	12	5
c. NGOs becoming eligible for FondoMicro loans - cumulative to 1996	9	7

2. The project start-up was done efficiently and all staff were contracted and systems established within the planned time horizon. The quality of FondoMicro staff is excellent, and the filing and MIS systems have been capable of producing all information required by the evaluators.
3. The credit manual developed by FondoMicro also appears excellent and clearly establishes the analytical framework to be used in assessing NGO eligibility for a line of credit. The selection criteria contain descriptions of the factors to be taken into consideration, but contain very few quantitative targets to be applied in deciding on eligibility. It is apparent that such targets exist; for example the evaluators were informed that FondoMicro considers payment arrears above 10% to be a basis for disqualifying an applicant, but this figure does not appear in the selection criteria in the credit manual. It would be useful for FondoMicro to specify clearly in the manual its minimal expectations, as this would assist the NGOs to focus on these targets.
4. The level of loan activity and number of NGOs receiving loans are both significantly below the targets. It should be noted that these targets were modified after the mid-term evaluation from those included in the original project paper, i.e. loans in the project's last year of US\$30,000,000 provided to 10 NGOs. FondoMicro has been unable to incorporate into the program the planned number of SME lending NGOs, nor to reach the level of loan activity envisioned by the project planners. The reasons for this short-fall have been discussed in-depth in previous sections, and are due primarily to the limited number of qualified NGOs.
5. Component 3 indicators establish targets for the credit program management (CPM) assistance to SME lending NGOs. The concepts and analyses included in the project paper, which underlie the output targets, were that a) a large number of micro enterprises exist in the Dominican Republic that face a credit constraint that limits their ability to grow; b) a large number of SME lending NGOs exist that are capable, with a relatively small amount of technical assistance, of serving as effective channels for this credit; and c) that a second tier lending institution could also serve as an efficient provider of the credit resources required by the micro entrepreneurs. Subsequent surveys have validated the first concept, and in fact the total number of micro enterprises in the Dominican Republic appears to be double the level originally contemplated.
6. Some observers (including the directors of most of the participating NGOs) continue to believe that there are a number of SME lending NGOs that have the potential to become credit worthy. Others, however, including representatives of international organizations interviewed, are dubious about

the potential of additional organizations to become efficient credit intermediaries even after receiving intensive technical assistance. The evaluators assessment of this point is that the technical difficulties of credit intermediation do in fact exceed the capabilities of most NGOs, particularly those that have undertaken these activities based solely on social welfare concerns. It is also indicative that there is no public outcry from SME lending NGOs concerning the failure of FondoMicro to meet their needs, in a country where the cultural norm is to go public with such concerns. However, it is difficult to prove the null hypothesis that the number of potential program participants does not exceed the number that have been incorporated to date (particularly among savings and loan associations and cooperatives). Only a joint USAID/FondoMicro survey of the universe of potential clients could lay this concern to rest.

7. Finally, as has been described in prior sections of this document, the evaluators believe that the project has not demonstrated the validity of the initial assumption that a second tier NGO could serve as an effective channel for credit resources to SME lending NGOs on a sustainable basis.

Conclusions:

1. The project has failed to achieve the planned output levels for component 2, financial support program, and component 3, CPM assistance to NGOs.
2. The failure to achieve the level of program outreach contemplated in the project is due primarily to the fact that the SME lending NGOs have proven less capable of performing this role on a sustainable basis than was assumed.

B. Financial impact on participating NGOs and their clients

Questions: What has been the financial impact on the participating NGOs and the clients of these NGOs? Have these NGOs delivered resources to the intended target group? Has the number of SMEs having access to credit substantially increased as a result of the project? What are the basic socio-economic characteristics (profile) of the participating NGO clients?

Findings:

1. The evaluators visited all seven NGOs that have approved lines of credit from FondoMicro, as well as eighteen micro enterprises that have outstanding loans from the NGOs. They also visited three organizations that have received technical assistance from FondoMicro but do not at this time

have lines of credit. While data was not available to measure the financial impact, all of the participating NGOs praised the technical assistance they have received from FondoMicro. Specifically, all of the NGOs indicated that the provision of computers and software to maintain accounting and loan portfolio information up to date, and the training in how to use the systems, had dramatically improved management of their resources, and their control of outstanding loans. Several of the organizations attributed FondoMicro technical assistance with their very survival as organizations. The financial impact of this assistance is very positive.

2. FondoMicro credit funds represent on average 34% of the total loan portfolios of the participating NGOs. FondoMicro resources enable the NGOs to attend a broader clientele, and also spread the NGO's administrative costs over a larger portfolio. There are definite economies of scale from this type of lending operation, and the increased level of credit activity contributes to the viability of the NGOs. However, to the extent that there are other potential sources of capital for the NGOs, the benefit from FM's activities would decrease. With the continued availability of inexpensive donor capital to the NGOs, FondoMicro's contribution is reduced.
3. The project paper economic analysis focused on the importance of job creation as a benefit from the project, and the project goal was to be measured in terms of jobs created. However, no systematic data gathering was built into the project to monitor the number of jobs created. The mid-term evaluation estimated a very positive impact on job creation at that time, based on the rapid growth in the loan portfolio and applying a factor developed by ADEMI for calculating the number of jobs created per loan amount. FondoMicro questions the validity of this method, raising the question for example of what happens then to the job when the loan is repaid or renewed. Also, far more employment is created by a loan to a manufacturing micro enterprise than by a loan to one involved in commerce, and the amount of employment generation per RD\$10,000 of loan size is greater for smaller loans than larger ones. During field visits, the evaluators obtained significant anecdotal information indicating that jobs are in fact being created in substantial numbers by the program. FondoMicro has conducted well designed surveys of the SME sector as a whole which document the fact that growth in this the sector does in fact immediately translate into increased employment. However, it is not possible to quantify the direct impact of project resources in the absence of data from the clients. The evaluators assume that since the level of loan activity fell substantially short of the planned level that the amount of job creation also fell short.

4. The clientele of the NGOs represent a cross section of the micro enterprise sector. Some of the clients fall into the "small business" category but the vast majority represent micro enterprises, owner managed with few employees (often family members). Women received 87% of the loans granted in 1996 with FondoMicro resources. The average loan size for loans granted in 1996 was RD\$10,750, the equivalent of \$768. Interest rates charged by the NGOs are often very high by conventional standards, although they are seen as low by micro entrepreneurs that otherwise pay as much as 20% per week. The majority of the NGOs charge a commission up front of 3% to 6%, and many set the interest as a fixed amount based on the original loan, even though repayment is made monthly. Therefore, the loans made by the NGOs are too small and too expensive to be attractive to larger borrowers. The project's use of these mechanisms to assure that resources reach the target population is in keeping with USAID guidance to not establish means tests in selecting borrowers, but to rely on market forces instead.

Conclusion:

1. The MSBD project has had a favorable financial impact on the participating NGOs and on their clients. This conclusion is based on observation and interviews during visits to the NGOs and selected micro enterprises, rather than reported data.

C. Project design problems limiting outputs

Question: What problems, if any, in project design have prevented the project from maximizing its benefits:

Findings:

1. As noted in the mid-term evaluation, the project design (and USAID's and FondoMicro's joint commitment to implement it) assumed that there were far more NGOs that had the potential, with a minimal amount of technical assistance, of becoming dynamic, self-managing institutions, similar to ADEMI, than proved to be the case. This assumption was based on inadequate knowledge of the sector and of the experience with NGO development in other countries (allowing for the fact that this experience was far more limited than it is today). The NGOs as institutions in the Dominican Republic have often been created by altruistic individuals committed to a specific issue. To convert organizations created with this objective into effective financial intermediaries is very difficult, as the high interest rates, applicant approval standards, and delinquency control procedures are often

unpleasant to implement, are bound to take time, and expose NGOs to risks. Some organizations have been very successful at making this transition, but the number is much smaller than planned.

2. Two of the more successful small organizations presently managing lines of credit are savings and loan cooperatives. Some FondoMicro staff indicated reluctance to include organizations of this type among its clients, as they feel that cooperative structures are too subject to erratic change, whereas board members and staff of NGOs usually remain in position for a number of years. The evaluators felt that greater attention should be given to cooperatives, since the fact that they receive deposits from the public lowers their cost of capital, and makes them subject to regulatory norms that is not the case with NGOs. The directors of AIRAC noted that the demand for loans from their organizations is reduced, since they give priority to saving mobilization, and that many of the cooperatives do not at this point meet the criteria for lines of credit from FondoMicro, but they indicated that with more intensive technical assistance more of these organizations could in fact qualify.

Conclusions:

1. The evaluators conclude that the project design underestimated the difficulty of developing NGOs with true potential to become long-term, fully sustainable organizations. FondoMicro could have increased its pool of potential clients to some degree by focusing closer attention on savings and loan cooperatives.

D. Changes recommended to increase impact

Question: What specific changes or adjustments might increase the efficiency and productivity of participating institutions, i.e., FondoMicro and its clients?

Findings:

1. FondoMicro and its clients suffer from four serious problems: a) they have very high administrative costs; b) they depend on donor subsidies for capital; c) their combined volume of activities is insufficient to have a major impact on the SME sector; and d) they are not subject to any formal regulatory body that could increase public confidence in the appropriate use of resources. These issues are interrelated. One reason that administrative costs are so high is that there are certain minimum costs that must be incurred to operate an SME lending NGO, and these costs are charged off against too small a base of operations. If the total portfolio were larger, the administrative charges per peso lent would be much lower. One of the reasons that the

portfolios are small is because the FondoMicro/NGO system cannot mobilize savings, and the system is not subject to supervision for compliance with prudential norms precisely because it does not mobilize savings.

2. FondoMicro has taken a bold step, with USAID's approval, to address the institutional constraint caused by its legal structure. By promoting the creation of the Banco de la Pequeña Empresa, FondoMicro is now part owner of a bank that is capable of mobilizing savings and accessing other commercial sources of funds. It is unclear, however, whether this bank will in fact serve micro businesses (at least initially through NGOs) or if it will limit its attention to small businesses, suffering client size creep that the cited USAID guidance warns against. The future role of FondoMicro vis a vis the BPE is also far from clear. The agreement signed with the Multilateral Investment Fund specifically requires that FondoMicro transfer its lending activities within two years, but FondoMicro's management has interpreted this agreement to mean that FondoMicro will not expand further its portfolio.
3. The base level NGOs, however, must still confront their organizational limitations. Actually, two of the five NGOs with active lines of credit are savings and loan cooperatives that are able to mobilize savings. It is instructive to note that the FondoMicro loans as a percentage of total loans outstanding for the two cooperatives averages 7.5%, while for the other NGOs it averages 34%. The cooperatives tend to use their FondoMicro line of credit as insurance against times of short liquidity, and focus their efforts on savings mobilization to obtain capital for loans. This may not help FondoMicro, but it makes the cooperatives for more resilient. Several of the other NGOs could convert to cooperative structures and enjoy the benefits of financial intermediation as well as regulatory supervision. As an alternative, other forms of organizational restructuring might be considered.
4. The SME lending NGOs appear to have enjoyed an admirable record of honesty in managing their resources. However, experience worldwide causes the evaluators concern in observing organizations that manage substantial resources governed only by part-time voluntary leaders. There were various reports of specific organizations being effectively the fiefdoms of their managers. Technical advice from FondoMicro concerning important issues such as inadequate unrecoverable loan reserves has reportedly been ignored by the organizations. In this environment, temptation can be very great for individuals to misuse their positions and authority. USAID funded audits have provided at least a periodic check on excesses, but it is unclear to what degree these will be continued in the future. Again, either a restructuring of the NGOs to a cooperative type of structure or some other

organizational modality that would assure a form of regulatory control over these organizations should be investigated.

Conclusion:

1. The fundamental issues that limit the growth and sustainability of FondoMicro and its clients derive from provisions in their legal structures that prohibit savings mobilization and full participation in financial intermediation.

Recommendation:

1. FondoMicro should undertake an in-depth analysis of the various organizational alternatives that could help it and its NGO clients to overcome their organizational/legal constraints.

E. Recommended service mixture

Question: The evaluators must determine if credit alone (that is, provided without formal FondoMicro technical assistance or training) would meet the needs of the participating NGOs. Alternatively, indicate if FondoMicro's provision of business and financial training (i.e., credit manage assistance) for NGO staff is sufficient to have an effective program.

Findings:

1. The response to this question varies with different NGOs. As the Cooperativa Empresarial and the Cooperativa La Candelaria receive technical assistance, training, and regulatory supervision from their association, AIRAC, at this stage withdrawal of these services by FondoMicro would not have a damaging impact. Withdrawal of FondoMicro credit would hurt these organizations, however. Although they only use their lines of credit to meet short-term needs, this is a very valuable service to them.
2. FondoMicro's line of credit to ADOPEM represents a significant portion of its loan portfolio, but many believe that given its strong international contacts, it would be able to substitute for FondoMicro's resources within a fairly short time. There is no other source of technical assistance for ADOPEM that is as competent as FondoMicro. There are signs of important organizational and financial management issues in ADOPEM that perhaps only FondoMicro can help the institution address(although to do so will require a strategy and concerted effort and diplomacy).

3. The two smaller NGOs, ADEPE and FONDESA at this point probably require both technical assistance and credit, as do the two new recipients of credit lines, Asociación Tu, Mujer, and CDD.
4. Looking more generally, the existence of large unused liquidity within FondoMicro argues against the belief that capital is short among NGOs. What is probably lacking is competency. Even if one were to assume that FondoMicro had been delinquent in aggressively seeking additional clients, one must still wonder at the lack of demand. With the amount of news about FondoMicro that has been in the popular media over the past seven years, as well as word of mouth communication, it is hard to believe that there is any SME lending NGO in the country that is not aware that FondoMicro provides loans to the sector, or even that FondoMicro has excess USAID donated liquidity. If there are a number of cash short SME lending NGOs, why haven't they sought out FondoMicro? It also seems likely that if there are competent organizations suffering what they believe to be unfair treatment and neglect from a USAID funded NGO, USAID would have received a stream of letters. The evaluators conclude that the constraining factor at the level of the NGOs is probably not lack of capital but lack of competence. Therefore, maintaining technical assistance is probably more important than maintaining the credit function, if a choice must be made.

Conclusion:

1. It is more important to maintain FondoMicro's technical assistance function than it is to maintain its credit function, as it is not a cost effective provider of credit.

F. Potential scale of activities

Question: The evaluators must estimate the potential scale of project activities in terms of business and nonfinancial assistance, and assess the capacity of the participating NGOs, FondoMicro prospective clients, and other private sector organizations to respond to the projected demand.

Findings:

1. FondoMicro surveys have substantiated that the informal small and micro enterprise sector is composed of nearly 300,000 businesses that employ an estimated 768,000 people, or approximately 26% of the economically active population in the Dominican Republic. There is rapid turnover within the sector, with an estimated 381 new businesses appearing daily, and 380 going out of business. Those businesses with 10 or fewer employees (the

micro business sub-sector) represent 97% of the businesses, while the remaining 3% are small businesses employing 11 to 50 employees.

2. The following table shows credit access by source for these businesses, based on a 1993 survey by FondoMicro:

Table 9
Credit Sources for Small and Micro Businesses

Credit Source	Percent of businesses
Do not use credit	77.4
Supplier credit	14.4
Banks and finance companies	3.3
NGOs	1.4
Family and friends	1.3

3. The survey appears to have underestimated the number of individuals receiving credit from non-governmental organizations. By the end of 1995 (two years after the survey), the 8 largest SME lending NGOs in the Dominican Republic had loans to 13,743 borrowers (for RD\$293 million, or US\$21.5 million). In addition, the 16 cooperatives affiliated with the Asociación de Instituciones Rurales de Ahorro y Crédito (AIRAC) had loans of RD\$ 151 million (US\$11 million) to their 30,000 members. Combined, this would represent 14.9% of the micro and small business sector. Even taking into account these sources of credit, however, two-thirds of the small and micro businesses, or 190,000 potential borrowers, have no access to credit.
4. Even if many of the potential borrowers have an aversion to debt or are serious credit risks, the size of the unmet credit demand is very large. Considering that the average loan size for the 5 NGOs with active lines of credit from FondoMicro was RD\$10,750, if only a quarter of the potential borrowers were interested in/eligible for financing, the unmet demand would be RD\$ 510 million, or over US\$ 36 million, over ten times the loans granted in 1996 with FondoMicro resources. The difficulty of expanding the borrower base under the MSBD project has not been due to lack of borrower demand, but lack of channels for supplying that demand.
5. The seven NGOs that are presently clients of FondoMicro can be expected to continue to expand their activity, and several of the other organizations that have received assistance from FondoMicro in the past (IDDI, FDD, Cooperative Neyba) are likely to qualify for assistance in the future.

Continued growth of these organizations, with the possible addition of a few others, could absorb the resources that FondoMicro presently has available. Under its understanding with the IDB, whatever is the size of the FondoMicro portfolio two years from now will become its limit for lending activities. Credit demand beyond that amount will be referred to the Banco de la Pequeña Empresa. The BPE is designed both to make direct loans to micro and small businesses, as well as to wholesale funds through NGOs and other structures.

Conclusions:

1. There is a large unmet demand for credit within the micro and small business sector, which exceeds the resources available to the organizations presently attempting to supply the demand. Donor assistance, which has been the chief source of funds for the sector (other than supplier credit), is unlikely to expand and is likely to contract.
2. The institutions serving this sector must evolve into organizations which can serve as effective links to the capital of net savers within the economy, such as savings and loan cooperatives or private banks.

VII. Gender Considerations

A. Assessment of program involvement by women

Question: Assess the methods of delivery of NGO financial and technical assistance currently being utilized under the project, and make recommendations of alternative approaches, if any, which could be more conducive to increase the number of women beneficiaries, without compromising the overall quality of the implementation and success of FondoMicro's efforts.

Findings:

1. Eighty-seven percent (87%) of the micro and small business loans made in 1996 by the SMEs with FondoMicro resources were made to women. These loans represent 66% of the total amount of new loans in 1996. The percentage of women borrowers has increased every year of the program since 1993. The fact that average loan size for women is smaller than for men is due to the fact that the types of businesses in which they are presently engaged tend to be more in the areas of commerce and services, where average loans tend to be lower than manufacturing. The program therefore appears to be very effective at assuring significant, full participation by women, and does not in any way exclude them through its activities.
2. The principal reason for the very high rate of participation by women in the program appears to be that the largest of FondoMicro's client NGOs is the Asociación Dominicana para el Desarrollo de la Mujer (ADOPEM), which specifically targets this population. Two organizations that recently received approved lines of credit, Asociación Tu, Mujer, and Centro Dominicano de Desarrollo (CDD) also focus their attention on women, although they are much smaller. A fourth organization with this focus, Mujeres en Desarrollo Dominicana (MUDE) received technical assistance from FondoMicro, but was not approved for a line of credit. Other participating NGOs also provide significant assistance to women micro and small entrepreneurs, but more in keeping with their participation within the general population of micro and small businesses.

Conclusion:

1. It is apparent that the methods for delivering NGO financial and technical assistance currently being utilized under the project are effective in achieving a high percentage of female participation in the program.

VIII. Lessons Learned/Substantiated

USAID's decision to invest in the creation of a second tier lending institution for NGOs has produced several important lessons which can be important for any effort to repeat this experience elsewhere, as well as in future USAID/DR programming. FondoMicro indicated that they understand that USAID has only attempted to create such a second tier organization in two other countries, and that in at least one of these the organization was subsequently converted to a first tier organization.

The following are the principal lessons from the MSBD project:

1. Non-governmental organizations in the Dominican Republic have structural weaknesses that limit their utility in development of fully self-sustaining financial intermediaries serving as stable sources of credit for micro and small businesses. Legal prohibition on mobilizing savings deposits denies NGOs (except for cooperatives) access to domestic savings. Although some NGOs may have limited access to commercial bank loans, this is only in relation to the amount of resources they have been able to capitalize from past donations and retained earnings. This base is too limited to support the level of lending required by the large numbers of small and medium enterprises. NGOs can play an important role by using the dedication and altruism of their staff to create innovative channels for reaching micro entrepreneurs, but unless the NGOs eventually transition to another legal structure, they will be limited to being channels of donor assistance rather than financial organizations. There may be exceptions to this lesson, but even a large, dynamic NGO like the Dominican Republic's ADEMI, which is held up as one of the two most successful micro enterprise financing NGOs in Latin America, is 90% dependent on donor capital.
2. A second tier financing institution can only survive if it has access to resources at sufficiently cheaper rates than do its first level borrowers that it can generate the margins needed to cover its expenses. Careful financial planning is required before promoting creation of a second tier organization, to assure that there is a true economic niche for it.
3. Micro enterprises are able and willing to pay extremely high interest rates for short periods of time, and this can make them an attractive market for commercial lending. NGOs in the Dominican Republic are regularly making loans at 2.5 to 3.0% per month for very small loans of up to a year, with monthly payments. The interest rate is frequently based on the original amount of the loan, however, doubling the effective rate. In addition, commissions of 3 to 6% are charged up front. Effective interest rates of over 70% are common. These high rates, however, probably also mask inefficiencies in the NGOs that are serving as credit channels.

4. NGO providers of credit have a limited range of financial services. As micro enterprises grow, they require larger loans than the NGOs are designed to supply, and they require secure places for their savings. They also require investment capital that can help them meet their longer term needs, at more reasonable rates. Again, either the NGOs must begin to consider a transition to a different type of financial structure to support the growth of their clientele, or other types of organizations must be encouraged to move in and meet this need.

5. The micro enterprise universe is quite diverse and has different needs. It is commonly assumed that loans to micro enterprises quickly translate into increased employment (the goal of the MSBD project). However, FondoMicro research has shown that over half of the micro enterprises in the Dominican Republic are at a subsistence level of existence, where increased incomes are immediately used to improve family living standards rather than hiring more employees. In addition, loans to micro enterprises involved in commerce and service sectors generate fewer new jobs than do loans to the manufacturing sector. The manufacturing sector requires longer term financing, however, often in higher amounts than do the other sectors. Depending on program objectives, donors like USAID may need to more narrowly focus their assistance on sub-sectors of the micro entrepreneurs.

6. Finally, the MSBD project was plagued from early on by conflict between USAID and FondoMicro over whether there was a viable universe of potential small and micro enterprise NGOs capable of serving as fully self-sustaining financial intermediaries. Both institutions could have been more effective at addressing this disparity in their views of project conditions, ideally through joint field trips to visit a range of potential institutions.

IX. Summary of Conclusions

The following is a list the conclusions contained in the evaluation, referenced by the report section:

III. Project Relevance

- A. In general, changes in the broad policy environment have been favorable to growth of the SME sector and of institutions like FondoMicro that support it.
- B. 1) Analysis of the long term sustainability of FondoMicro should take into consideration that real interest rates in the Dominican Republic are high, and that over time they should tend to decrease.

2) The proposed PROMIPYME program already had a negative impact on the SME lending sector before its start-up was canceled, and would significantly undercut the NGO institutional network if the program is ever fully funded and implemented. At the level of the first tier NGOs, PROMIPYME would siphon off the more profitable small business borrowers, leaving them with only the micro borrowers who are much more expensive to reach and service. Also, to the extent the NGOs become reliant on unsustainable subsidized interest rates, they will fail to undertake measures required to improve their operating efficiency. Finally, subsidized programs of this nature inevitably fall prey to partisan political pressures, which would distort the nature of the SME NGOs.

As a second tier organization, if PROMIPYME ever becomes a reality, FondoMicro will be undercut, as NGOs will opt to access its subsidized resources in lieu of those of FM, as they did during the early 1990s when the IDB offered 1%, 40 year loans. The PROMIPYME program managers anticipated that FondoMicro would continue to provide technical assistance to the program's borrowers, demonstrating an unawareness of the pernicious impact of subsidized interest rates on NGOs. The program would also have reduce the financial strength of the Banco de Reservas, since as designed the Bank was likely to suffer loan default rates in excess of its interest earnings. If the MSBD project were being designed today, the existence of the PROMIPYME project would have been grounds for project rejection by USAID.

- C. As noted in the mid-term evaluation, the anticipated role for FondoMicro as a clearing house for donor assistance to the NGO sector has failed to materialize.

- D. To the extent that FondoMicro's primary function is financial intermediation, public advocacy as an institution could be counterproductive, as it would be for any financial institution. However, through its research program, FondoMicro has succeeded in bringing to the attention of decision makers issues that are of concern to the sector.
- E. Continued provision of some level of technical assistance and training support is necessary for the viability and future growth of SME lending NGOs. Provision of this assistance should be based on at least partial cost recovery planning, however.

IV. Project Effectiveness

- A. FondoMicro will fall well short of expectations for most end of project status indicators, and it appears that the existing achievements may not be sustainable. The end of status indicators were designed to measure the outreach of the program, and the program is not attaining the large, broad audience of small and micro businesses that was the target of the program.
- B. The MSBD project was designed to be a key element in the USAID/DR program to promote increased economic opportunities for the Dominican majority. By creating a sustainable source of funding serving a significant percentage of the small and micro businesses in the Dominican Republic, USAID intended to make an important contribution to this goal. Unfortunately, the program has had far less impact than planned, and the contribution toward the program goal is not commensurate with the level of resources expended.
- C.
 - 1) The project lacked effective leverage to assure that potential NGO participants in the program would in fact adopt measures required to improve their managerial and organizational capabilities, since many NGOs had alternative sources of credit.
 - 2) Inability to capture savings deposits is an organizational constraint to development of the NGOs.
 - 3) It is unlikely that there are many other NGOs in the Dominican Republic qualified to become program participants, even with the same amount of intensive assistance FondoMicro provided to some of its current clients.
- D. The participating NGOs implemented most of the technical recommendations provided by FM advisors, although several failed to adopt important

recommendations concerning administrative and portfolio management policies and procedures.

- E.
 - 1) In general, the credit programs in the five NGOs with active lines of credit from FondoMicro appear to be well managed. However, loan supervision in some cases appears insufficient, particularly in light of rapidly expanding portfolios.
 - 2) The reserves for uncollectible loans appear inadequate in most of the five NGOs with active lines of credit from FondoMicro, and in combination are only about one third of the appropriate level.
- F.
 - 1) The FondoMicro management systems appear modern and conscientiously implemented. They appear too staff intensive and costly for the level of program activity, however.
 - 2) FondoMicro either lacks a clear strategic vision of where it is headed, or it has failed to adequately share that vision with its partners and clients.
- G.
 - 1) At this point, the cost of maintaining FondoMicro as a second tier lending institution exceeds the value of its role.
 - 2) FondoMicro should prepare a targeted strategic plan that demonstrates how it intends to provide assistance in the future for the micro enterprise sector, and share this plan with its supporters and clients.
- H. Creation of the Banco de la Pequeña Empresa is a positive development as it enables mobilization of domestic Dominican financial resources in support of at least the small business sector, and hopefully the micro business sector.

V. Benefit/Cost of Program

- A. The planned counterpart contribution from loans from private banks was not made, as these resources were not required due to the reduced level of credit activities. Counterpart from other donors was extremely small, as these institutions decided to use other channels for funds provided to the sector. GODR and FondoMicro counterpart contributions to the project also fell short of planned levels. Total counterpart for the project equaled 37% of total project costs.
- B. The quality of the FondoMicro portfolio appears sound, and the yield is in keeping with the agreed interest rate policy.

- C.
 - 1) FondoMicro has managed its resources conservatively and succeeded not only in maintaining their value but also in increasing them. At the same time, FondoMicro has failed to channel the planned level of assistance to small and micro entrepreneurs through NGOs. The decision to use the Banco de la Pequeña Empresa for this purpose might skew resources away from informal micro businesses toward formal small and medium businesses, unless specific measures are taken to assure a focus on micro entrepreneurs.
 - 2) USAID and FondoMicro failed to address adequately the lack of a common perception concerning the feasibility of the original project design after this disparity became apparent to both institutions.
- D. The project is not cost effective and is not sustainable on a long-term basis. In effect, FondoMicro is only viable at its present cost structure as a channel to lend free capital at near commercial rates to the NGOs, and even then a portion of its administrative costs must be subsidized from investment income (also using donated capital). It is unrealistic to assume that FondoMicro could obtain borrowed private bank capital and lend it at rates adequate to cover its costs, as this would result in very high priced loans, and the client NGOs have other potential sources of financing.
- E. Alternative approaches to creation of a fully self-sustainable financial system serving the SME sector that directly mobilize domestic savings would have been more cost effective.
- F. Data on program impact was not systematically collected. Surveys of employment generation in the SME sector provide a reasonable basis to conclude that the program had a positive impact, though substantially below the planned level.

VI. Outputs

- A.
 - 1) The project has failed to achieve the planned output levels for component 2, financial support program, and component 3, CPM assistance to NGOs.
 - 2) The failure to achieve the level of program outreach contemplated in the project is due primarily to the fact that the SME lending NGOs have proven less capable of performing this role on a sustainable basis than was assumed.
- B. The MSBD project has had a favorable financial impact on the participating NGOs and on their clients. This conclusion is based on observation and

interviews during visits to the NGOs and selected micro enterprises, rather than reported data.

- C. The evaluators conclude that the project design underestimated the difficulty of developing NGOs with true potential to become long-term, fully sustainable organizations. FondoMicro could have increased its pool of potential clients to some degree by focusing closer attention on savings and loan cooperatives.
- D. The fundamental issues that limit the growth and sustainability of FondoMicro and its clients derive from provisions in their legal structures that prohibit savings mobilization and full participation in financial intermediation.
- E. It is more important to maintain FondoMicro's technical assistance function than it is to maintain its credit function, as it is not a cost effective provider of credit.
- F.
 - 1) There is a large unmet demand for credit within the micro and small business sector, which exceeds the resources available to the organizations presently attempting to supply the demand. Donor assistance, which has been the chief source of funds for the sector (other than supplier credit), is unlikely to expand and is likely to contract.
 - 2) The institutions serving this sector must evolve into organizations which can serve as effective links to the capital of net savers within the economy, such as savings and loan cooperatives or private banks.

VII. Gender Considerations

- A. It is apparent that the methods for delivering NGO financial and technical assistance currently being utilized under the project are effective in achieving a high percentage of female participation in the program.

X. Summary of Recommendations

The following is a list of the recommendations included in the evaluation, referenced to the report section in which they may be located:

- III.B. USAID should work with other donors to assure that the GODR is fully aware of the potential negative effects of the proposed PROMIPYME program.
- IV.G. Until FondoMicro prepares a defensible strategic plan that demonstrates how its activities will benefit the micro enterprise sector, USAID should withhold support for conversion of the STP loan resources to an endowment.
- IV.H. FondoMicro should develop a strategic plan to maximize access by micro entrepreneurs to the resources of the Banco de la Pequeña Empresa.
- V.C. In projects of this nature, USAID needs to clearly monitor the performance of the implementing institution, and if it appears that there is a lack of commonality of purpose or of understanding of project conditions, an intensive effort is required to resolve the issue. If this cannot be achieved, USAID should consider suspending or canceling the project.
- VI.E. FondoMicro should undertake an in-depth analysis of the various organizational alternatives that could help it and its NGO clients to overcome their organizational/legal constraints.

List of Contacts by Institution and Date

<u>Date</u>	<u>Institution</u>	<u>Persons Contacted</u>
March 17	USAID Mission	Ms. Marilyn Zak, Director Mr. Brian D. Rudert, Dr. Efraim Laureano, Lic. Luis Gonzalez y Lic. Patricia Hernandez.
17	FondoMicro	Lic. Luis Martínez.
18	ADOPEM	Dra. Mercedes Canaldo y la Lic. Mercedes de Beras g.
19	Asociación Tu, Mujer	Lic. Cristina Sánchez.
20	Secretaría de Industria y Comercio	Lic. Maira Jiménez.
20	Interamerican Foundation	Lic. Telésforo González.
20	Coop. Empresarial	Lic. Joaquín Surriel.
21	ADEMI	Lic. Pedro Jiménez.
24	FUNDESA, Santiago, R.D.	Lic. Quilvio Jorge y Lic. Juan Lantigua.
24	ADEPE, Moca, R.D.	Prof. Dorca Barcasel
25	FondoMicro	Dr. Frank Moya Pons, Dr. Mario Dávalos y Lic. Luis Martínez.
26	MUDE	Lic. Virgilio Felix.
26	IDDI	Mr. David Luther.
27	Coop. La Candelaria	Prof. Pedro Mejía.
31	AIRAC	Lic. Ramiro R. Carrasco y Lic. Virgilio R. Gerardo.
April 1	B I D	Dr. Victor Mosquera
April 2	Fundación Economía y Desarrollo	Dr. Andres Dauhajre Hijo y Dr. Mario Dávalos.

Documents Reviewed

	TITLE	AUTHOR
1.	Micro Enterprise Development	USAID/W Policy Paper
2.	Project Paper - MSBD Project	USAID/Dominican Republic
3.	Mid-Term Evaluation	J. E. Austin Associates
4.	MACS Accounting Report - MSBD Project	USAID/Dominican Republic
5.	Ley 520, June 26, 1920, and its amendments	GODR
6.	FM/USAID letters ref project feasibility	Dr. Mario Davalos
7.	Bando de la Pequeña Empresa	Dr. Andres Dauhajre Hijo
8.	Banco de la Pequeña Empresa	IDB funding proposal
9.	PROMIPYME Operating Manual	Secretaria de Industria y Comercio, GODR
10.	Annual Report 1994	FondoMicro
11.	Annual Report 1995	FondoMicro
12.	Annual Report 1996	FondoMicro
13.	Credit Manual	FondoMicro
14.	Organizational description	A D E M I
15.	Annual Report 1996	Fundación Dominicana de Desarrollo (FDD)
16.	Annual Report 1996	MUDE
17.	Financial Statements	ADEPE
18.	Financial Statements	FONDESA
19.	Financial Statements	CDD
20.	Financial Statements	Cooperativa La Candelaria
21.	Financial Statements	Cooperativa Empresarial

	TITLE	AUTHOR
22.	Financial Statements	Asociación ADOPEM
23.	Financial Statements	Asociación Tu, Mujer
24.	Annual Report 1995	AIRAC
25.	Mercados Financieros Rurales	Dr. Claudio Gonzalez-Vega
26.	Reforma Financiera, Su Manejo	Dr. Claudio Gonzalez-Vega
27.	El Colmado	Dr. Gerard Murray
28.	Ahorro y Producción	Jaime Aristy Escuder
29.	Perfil De Las Microempresas	Marina Ortiz
30.	Capacitación y Entrenamiento	Mirtha Olivares

Evaluación FondoMicro Cuestionario para Entrevistas con ONGs

1. Fecha y lugar de la entrevista: _____
2. Nombre de la ONG: _____
3. Actividades principales: _____
4. Fecha en que comenzó operaciones: _____ 5. Número de empleados: _____
6. Presupuesto anual: _____
7. Fuentes de ingreso: _____
8. Estructura legal de ONG? _____
9. Estructura organizacional de la ONG? _____
10. Estabilidad personal administrativo: _____
Directivo: _____
11. Cual es la meta para el crecimiento futuro de la ONG? _____
12. Cuales son los principales problemas que limitan el crecimiento de servicios? _____
13. Cuantos y que clase de micro/pequeño empresas reciben apoyo de la ONG? _____
14. Cual es la fuente principal de crédito para la ONG? _____
Hay otras posibles fuentes? _____
15. Cuales otras instituciones prestan servicios que ayudan a la ONG? _____
16. Recibe la ONG apoyo de FondoMicro? _____ si _____ no
17. Que servicios recibe de FondoMicro? _____
18. Esos servicios facilitan el crecimiento de la ONG? Si _____ No _____
De que forma? _____
19. Ha aumentado el apoyo de la ONG a las Micro/pequeña empresas, y el numero de empresas servidos, a raíz del apoyo recibido de FondoMicro? ___ si, ___ no
De que forma? _____
20. Cuan importante ha sido la asistencia técnica de FondoMicro para facilitar la

obtención de crédito por la ONG? _____

21. Ha tenido la ONG alguna dificultad en conseguir apoyo de FondoMicro _____

En caso afirmativo, favor explicar _____

22. Existen otros servicios de apoyo que les sean necesarios? _____

23. Hay políticas gubernamentales que limitan el crecimiento de las Micro y pequeñas empresas? _____

24. En caso afirmativo, favor detallar los mismos _____

25. Es la ONG autosostenible? _____

26. Como ha podido alcanzar la ONG la autosostenibilidad? _____

27. Otros comentarios? _____

Questionario para entrevistas con Micro y Pequeña Empresas

1. Fecha de la entrevista: _____
2. Nombre de las empresa: _____
3. Actividad comercial: _____
4. Fecha comenzó operaciones: _____
5. Ingresos anuales: _____
6. Costos anuales: _____
7. Número de empleados: _____
8. Estructura legal de la empresa? _____
9. Estructura organizacional de la empresa? _____
10. Estabilidad personal administrativo: _____
Directivo: _____
11. Cual es la meta del crecimiento futuro de la empresa? _____
12. Cuales son los principales problemas que limitan el crecimiento de la empresa?

13. Cuales instituciones prestan servicios que ayudan la empresa? _____
14. Recibe la empresa apoyo de _____ (nombre de ONG beneficiado por FondoMicro)? ☐ si ☐ no
15. Cuales servicios recibe de la ONG? _____
16. Esos servicios faciliten el crecimiento de la empresa? ☐ si ☐ no; De que forma? _____
17. Ha tenido la empresa alguna dificultad en conseguir apoyo de la ONG? _____
18. Hay otros servicios de apoyo que necesita la empresa? _____
19. Hay políticas gubernamentales que limitan el crecimiento de las micro y pequeñas empresas? _____
20. Otros comentarios: _____

Return on Investment Analysis MSBD Project

The following six pages present the working papers for the analysis of the financial return from USAID's investment in FondoMicro. These pages portray the following:

Pages 1 and 2:

These pages respond to the data requested per the attachment to USAID/W policy guidance for assessment of the full self-sustainability of micro finance organizations receiving USAID assistance. The "Analytic performance indicators" shown at the end of the analysis are used to calculate the total administrative expenses divided by the average loan portfolio, in order to measure operating efficiency, and secondly the degree the organization has reached full financial sustainability, i.e. its income from interest and commissions on its loans divided by its total administrative expenses and the adjusted financial expenses (applying an opportunity cost to the average loan portfolio). An organization is judged to be fully financially self-sufficient if this second ratio is 1.00 or better.

Page 3

This page shows the Analytic performance indicators for FondoMicro, including interest income and commissions on both the average loan portfolio and the investment portfolio. The adjusted financial expenses shows the opportunity cost (shown at three different opportunity cost rates) for the total amount of funds in both portfolios.

Page 4

This page shows the Analytic performance indicators for each of the five NGOs with active loans from FondoMicro. The amounts shown for interest income, administrative expenses, and adjusted financial expenses are only for that proportion that corresponds to the FondoMicro resources managed by each NGO in relation to the NGO's entire portfolio.

Page 5

This sheet repeats the Analytic performance indicators calculation for the entire FondoMicro/NGO system. The income is that received by the NGOs from managing the average annual FondoMicro portfolio. The administrative expenses combine those of FondoMicro with the proportional amounts for the five NGOs. Two different opportunity costs are assigned to the resources managed.

Page 6

This sheet shows a sensitivity analysis of the data from page 5, using different total portfolio amounts and different administrative expenses.

Page 7

This sheet shows the calculation of Internal Rates of Return for the project using three different USAID investment amounts. Analysis A uses all USAID funds invested in the project, including costs of technical assistance and research services that are not of direct immediate benefit to FondoMicro itself. Analysis B uses only those resources invested in the credit fund. Analysis C uses all funds received by FondoMicro for its credit fund, operating costs, equipment, and auditing services. Each analysis is then repeated, applying an annual inflation discount factor to the positive cash flow each year.

Page 8

This sheet shows the calculation of the residual value of net worth after subtracting the annual positive cash flows.

Evaluation
 USAID/Dominican Republic Micro & Small Business Development Project
 Financial Analysis - FondoMicro
 (amounts in RD\$)

Annex D

	<u>FondoMicro</u>		<u>Alternate Analysis</u>
Portfolio and outreach - 1996			
Loans portfolio - aver for year			
- amount	27,265,500	62,100,000	205,000,000
- number	5		
% female clients	87		
Arrears % - total for NGOs	5.9		
- 0-30 days	1		
- 30-60 days	1		
- 60-90 days	1		
- 90-120 days	1		
- more than 90 days	2		
Number of staff involved with credit	5		
Interest rate policy - 1996			
Effective annual interest rate charged	80% prime		
Income and expense information 1996			
<i>Income</i>			
Interest and fee income on loans	4,851,147	11,048,990	36,474,121
Income from investments	6,310,357		
Other income from financial services	0		
<i>Expenses</i>			
Staff expenses	2,393,247		
Other admin expenses	3,128,570		
Unrecoverable loan allowance expense	176,531		
Interest and fee expenses	2,236,889		
<i>Net income</i>			
Net operating profit	3,226,267		
Non-operating income	1,235,524		
Non-operating expenses	7,192,976		
Donations			
- operating expenses	5,748,092		
- capital contribution	0		
Net income	3,016,907		
Balance sheet information 12/31/96			
<i>Assets</i>			
Cash on hand	2,528,959		
Mandatory reserves	0		
Short-term investments	42,903,315		
Loans outstanding	33,515,902		
Loan loss provision	3,016,431		
Net portfolio outstanding	30,499,471		
Long term investments	17,982,000		
Fixed assets - net	10,963,559		
Other assets	685,559		
Total assets	105,562,863		
<i>Liabilities</i>			

Savings and time deposits	0		
Other deposits	0		
Loans from Central Bank	0		
Loans from other banks	23,009,666		
Other short term liabilities	5,440,133		
Other long term liabilities	0		
Equity			
Paid-in equity	324,149		
Donated equity	51,512,000		
Retained earnings	25,601,065		
Other capital accounts	0		
Current year profit or loss	3,016,905		
Total liabilities and equity	108,903,918		
Indicators of opportunity cost 12/31/96			
Local interbank lending rate	0.15		
Local 90-day CD rate	0.15	0.15	0.15
Local annual inflation rate	0.6		
Analytic performance indicators 1996			
Total admin expenses	5,698,348	5,698,348	5,698,348
Adjusted financial expenses	4,089,825	9,315,000	30,750,000
Total adjusted expenses	9,788,173	15,013,348	36,448,348
Admin. cost/ave. portfolio	0.21	0.09	0.03
Interest income/total adj. exp.	0.50	0.74	1.00

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Sheet1

"Subsidized" FondoMicro

Opportunity cost	0.06	0.15	0.20
Loan Portfolio	27,265,500	27,265,500	27,265,500
Investment portfolio	32,903,315	32,903,315	32,903,315
Interest and fee income on loans	4,851,147	4,851,147	4,851,147
Interest and fee income on investments	6,310,357	6,310,357	6,310,357
Total income	11,161,504	11,161,504	11,161,504
Administrative expenses	5,698,348	5,698,348	5,698,348
Adjusted financial expenses	3,610,129	9,025,322	12,033,763
Total adjusted expenses	9,308,477	14,723,670	17,732,111
Admin. cost/ave. portfolio	0.09	0.09	0.09
Interest income/total adj. exp.	1.20	0.76	0.63

Evaluation
USAID/Dominican Republic Micro & Small Business Development Project
Financial Analysis of NGO recipients
(Amounts in RD\$)

	ADOPEM	Coop. La Candelaria	ADEPE	Coop Empresarial	FONDESA
Net Loan portfolio - 12/31/96	38,495,482	9,807,093	18,966,132	14,876,766	16,830,322
FondoMicro aver loan	14,265,500	600,000	4,950,000	1,250,000	6,200,000
% portfolio FondoMicro	0.37	0.06	0.26	0.08	0.37
<i>Income</i>					
Interest/fees from loans	16,608,639	3,562,913	2,549,641	3,893,407	5,031,269
Interest/fees from FM portfolio	6,154,762	217,980	665,435	327,138	1,853,433
<i>Expenses</i>					
Staff expenses	5,726,318	722,757	2,803,326	755,386	1,334,877
Other admin. expenses	3,294,855	1,342,940	1,345,860	977,410	2,634,926
Unrecoverable loan provision	1,447,989		67,916	130,430	33,644
Total admin expenses	10,469,162	2,065,697	4,217,102	1,863,226	4,003,447
Admin expenses of FM portfolio	3,879,620	126,380	1,100,628	156,555	1,474,801
<i>Arrears %</i>					
Total portfolio	6.60%	6.00%	8.04%	8.90%	3.93%
FM portfolio	5.30%	?	?	?	?
<i>Analysis - FondoMicro portfolio</i>					
Adjusted financial expenses	2,139,825	90,000	742,500	187,500	930,000
Total adjusted expenses	6,019,445	216,380	1,843,128	344,055	2,404,801
Admin. cost/ave. portfolio	0.27	0.21	0.22	0.13	0.24
Interest income/total adj. exp.	1.02	1.01	0.36	0.95	0.77
Total arrears for 5		6,639,468			
Total portfolio for 5		98,975,795			
Weighted average arrears for 5		6.7%			

Evaluation
USAID/Dominican Republic Micro & Small Business Development Project
Consolidated Analysis of Fondo Micro and NGO recipients
(Amounts in RD\$)

Opportunity cost	FondoMicro	NGOs	15% Total	20% Total
Loan portfolio	27,265,500		27,265,500	27,265,500
Interest income-FM port. only		9,218,748	9,218,748	9,218,748
Administrative cost-FM portfolio	5,698,348	6,737,983	12,436,331	12,436,331
Adjusted financial expenses			4,089,825	5,453,100
Total adjusted expenses			16,526,156	17,889,431
Admin. cost/ave. portfolio			0.46	0.46
Interest income/total adj. exp.			0.56	0.52

Sensitivity Analysis
FondoMicro and Recipient NGOs

Modify total portfolio

Outstanding portfolio	27,265,500	50,000,000	75,000,000	100,000,000	66,000,000
Interest income ratio	0.34	0.34	0.34	0.34	0.34
Equivalent interest income	9,218,748	16,905,517	25,358,276	33,811,034	22,315,283
Administrative expense	12,436,331	12,436,331	12,436,331	12,436,331	12,436,331
Adjusted financial expense	4,089,825	7,500,000	11,250,000	15,000,000	9,900,000
Total adjusted expense	16,526,156	19,936,331	23,686,331	27,436,331	22,336,331
Admin. cost/ave. portfolio	0.46	0.25	0.17	0.12	0.19
Interest income/total adj. exp.	0.56	0.85	1.07	1.23	1.00

*Portfolio break even size
w/ 20% opportunity cost*

Modified expense level

Outstanding portfolio	27,265,500	0.34	88,000,000
Equivalent interest income	9,218,748		29,920,000
Administrative expense	5,130,000		12,436,331
Adjusted financial expense	4,089,825	0.2	17,600,000
Total adjusted expense	9,219,825		30,036,331
Admin. cost/ave. portfolio	0.19		0.14
Interest income/total adj. exp.	1.00		1.00

Internal Rate of Return Analysis
USAID/DR MSBD Project
(RD\$)

Without Inflation

Year	Analysis A			Inflation Rate	Analysis A1		
	USAID Investment	Cash Flow	Net Investment		USAID Investment	Cash Flow	Net Investment
1990	-658,200		-658,200		-658,200		-658,200
1991	-11,557,000	867,603	-10,689,397	0.790	-6,456,425	484,694	-5,971,730
1992	-17,596,500	3,093,922	-14,502,578	0.051	-9,353,422	1,644,575	-7,708,848
1993	-22,477,470	6,716,379	-15,761,091	0.028	-11,622,474	3,472,852	-8,149,621
1994	-14,263,198	8,335,221	-5,927,977	0.143	-6,452,408	3,770,700	-2,681,708
1995	-5,026,477	6,768,958	1,742,481	0.092	-2,081,931	2,803,655	721,723
1996	-6,215,323	57,282,425	51,067,102	0.040	-2,487,288	22,923,651	20,436,363
1997							

Internal rate of return 2.9%

-4.6%

Year	Analysis B			Inflation Factor	Analysis B1		
	USAID Investment	Cash Flow	Net Investment		USAID Investment	Cash Flow	Net Investment
1990	0	0	0	1.000	0	0	0
1991	-10,000,000	867,603	-9,132,397	1.790	-5,586,592	484,694	-5,101,898
1992	-14,860,000	3,093,922	-11,766,078	1.881	-7,898,835	1,644,575	-6,254,261
1993	-17,230,000	6,716,379	-10,513,621	1.934	-8,909,153	3,472,852	-5,436,301
1994	-8,420,000	8,335,221	-84,779	2.211	-3,809,053	3,770,700	-38,352
1995	-1,002,000	6,768,958	5,766,958	2.414	-415,021	2,803,655	2,388,634
1996		57,282,425	57,282,425	2.499	0	22,923,651	22,923,651
1997							

Internal rate of return 19.4%

11.0%

Analysis C			Analysis C1		
USAID Investment	Cash Flow	Net Investment	USAID Investment	Cash Flow	Net Investment
-658,200		-658,200	-658,200		-658,200
-11,527,000	867,603	-10,659,397	-6,439,665	484,694	-5,954,970
-17,446,500	3,093,922	-14,352,578	-9,273,690	1,644,575	-7,629,115
-19,190,470	6,716,379	-12,474,091	-9,922,857	3,472,852	-6,450,005
-10,200,648	8,335,221	-1,865,427	-4,614,585	3,770,700	-843,885
-1,589,477	6,768,958	5,179,481	-658,350	2,803,655	2,145,305
-297,414	57,282,425	56,985,011	-119,021	22,923,651	22,804,630

12.1%

3.9%

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Adjusted net worth	
Net worth 12/31/97	77,133,065
Plus unrecoverable loan re	3,016,431
Plus accumulated depreci	2,915,012
Adjusted net worth	83,064,508
Less Cash flow 91-95	25,782,083
	57,282,425